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Print Edition July 28th 2007

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Some countries are beginning to worry about falling numbers, but there are measures that governments can take to deal with decline:
leader

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Business this week

Jul 26th 2007
From The Economist print edition

Britain's **Barclays** raised its offer for ABN AMRO, a Dutch bank, to around *euro*68 billion ($93 billion) and added a cash component, of 37%, to its previous all-share proposal. The tender from Barclays remains lower than a rival bid for ABN AMRO from a consortium of European banks led by Royal Bank of Scotland, of which 93% is cash. In order to raise the money, Barclays sold small stakes in its business to a Chinese state-owned bank and a Singaporean government-controlled holding company, the largest overseas investments yet made by both China and Singapore. See article

Resolution struck an £8.6 billion ($17.7 billion) deal to merge with **Friends Provident**, so creating one of Britain's biggest life insurers.

General Electric's consumer-finance division unveiled the first credit card in the United States that offers "rewards dedicated to reducing cardholders' carbon emissions". The initiative is part of the company's scheme to chalk up $20 billion in green sales by 2010.

Siemens ended months of market speculation about the future of its **auto-parts** unit when it announced a deal to sell it to **Continental**, a tyre manufacturer, for *euro*11.4 billion ($15.7 billion). It had been thought the unit, which is the biggest supplier of air-bag systems in the world, might be spun off as a separate company. As well as a sale, the German engineering group, which is in the midst of a restructuring process, made a purchase: **Dade Behring**, an American medical diagnostics company, for $7 billion. See article

Killer drillers

Two oil and gas drilling companies, **Transocean** and **GlobalSantaFe**, agreed to merge in an $18 billion deal. Based in Texas, the combined company will run the world's biggest fleet of oil rigs. The rents for oil rigs have been rising fast thanks to the scramble for deepwater oil reserves; some are leased out for as much as $500,000 a day.

Apple's quarterly profit increased by 73% compared with a year ago, boosted partly by the sale of 9.8m iPods in the period. The company's earnings relieved pressure on its share price, which fell earlier after AT&T reported that only 146,000 iPhones had been activated in its first weekend of sales, much lower than analysts had forecast. Apple said it sold 270,000 iPhones in the 30 hours to the end of June 30th, covered in its earnings.

The Sat Nav fad

TomTom, the market leader in portable mapping devices, said it would buy **Tele Atlas**, another Dutch company, for *euro*1.8 billion ($2.5 billion). TomTom has around half of Europe's market for satellite-navigation products and a quarter of North America's. But it could be hampered in the future by the fashion for adding built-in mapping systems to cars and phones.

Vodafone's shareholders easily defeated a proposal from an activist investor (albeit with just 0.0004% of the company's shares) that would have forced the mobile-phone giant to sell its 45% stake in America's Verizon Wireless.

Amazon said quarterly net profit had more than tripled compared with a year earlier, to $78m. The online retailer's North American sales are booming and the rate of growth of its operating profit, which slowed as Amazon invested heavily in new technology, was up. Amazon's share price rose by 24%.

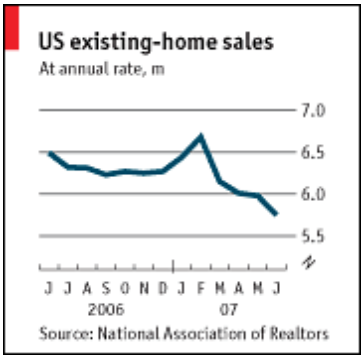
Merck also delighted investors when it reported a 12% rise in quarterly net income, compared with a year ago, and improved its profit forecast for 2007. The drugmaker is rebounding from a bad stint that saw it lose patent protection on its bestselling treatment for reducing cholesterol and fight lawsuits over the

safety of Vioxx, a pain reliever. Merck is still contending some 27,000 of those suits, but sales of other drugs, including the first vaccine for cervical cancer, are soaring.

Credit markets had a wobbly week. Bankers postponed a sale of $12 billion in debt funding the buy-out of Chrysler, a sign of the difficulties Wall Street is starting to experience in raising money for leveraged buy-outs. The sale of some senior debt in Europe's biggest LBO, of Alliance Boots, was also delayed.

Staying put

There was more bad news from America's **housing market**. Poor earnings from the country's biggest independent mortgage-lender and nervousness about credit woes helped cause markets to plunge on July 24th (the **Dow Jones Industrial Average** had its worst one-day fall in more than four months). And figures for June showed that sales of **existing homes** were at their lowest level since November 2002. There was one glimmer of hope: the median price of a home rose, year on year, for the first time in 11 months, by $800, to $230,100.



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Jul 26th 2007
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Kevin Kallaugher

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Demography

How to deal with a falling population

Jul 26th 2007
From The Economist print edition

Worries about a population explosion have been replaced by fears of decline

Getty Images

Get article background

THE population of bugs in a Petri dish typically increases in an S-shaped curve. To start with, the line is flat because the colony is barely growing. Then the slope rises ever more steeply as bacteria proliferate until it reaches an inflection point. After that, the curve flattens out as the colony stops growing.

Overcrowding and a shortage of resources constrain bug populations. The reasons for the growth of the human population may be different, but the pattern may be surprisingly similar. For thousands of years, the number of people in the world inched up. Then there was a sudden spurt during the industrial revolution which produced, between 1900 and 2000, a near-quadrupling of the world's population.

Numbers are still growing; but recently—it is impossible to know exactly when—an inflection point seems to have been reached. The rate of population increase began to slow. In more and more countries, women started having fewer children than the number required to keep populations stable. Four out of nine people already live in countries in which the fertility rate has dipped below the replacement rate. Last year the United Nations said it thought the world's average fertility would fall below replacement by 2025. Demographers expect the global population to peak at around 10 billion (it is now 6.5 billion) by mid-century.

As population predictions have changed in the past few years, so have attitudes. The panic about resource constraints that prevailed during the 1970s and 1980s, when the population was rising through the steep part of the S-curve, has given way to a new concern: that the number of people in the world is likely to start falling.

The shrinking bits

Some regard this as a cause for celebration, on the ground that there are obviously too many people on the planet. But too many for what? There doesn't seem to be much danger of a Malthusian catastrophe. Mankind appropriates about a quarter of what is known as the net primary production of the Earth (this is the plant tissue created by photosynthesis)—a lot, but hardly near the point of exhaustion. The price of raw materials reflects their scarcity and, despite recent rises, commodity prices have fallen sharply in

real terms during the past century. By that measure, raw materials have become more abundant, not scarcer. Certainly, the impact that people have on the climate is a problem; but the solution lies in consuming less fossil fuel, not in manipulating population levels.

Nor does the opposite problem—that the population will fall so fast or so far that civilisation is threatened—seem a real danger. The projections suggest a flattening off and then a slight decline in the foreseeable future.

If the world's population does not look like rising or shrinking to unmanageable levels, surely governments can watch its progress with equanimity? Not quite. Adjusting to decline poses problems, which three areas of the world—central and eastern Europe, from Germany to Russia; the northern Mediterranean; and parts of East Asia, including Japan and South Korea—are already facing.

Think of twentysomethings as a single workforce, the best educated there is. In Japan (see article), that workforce will shrink by a fifth in the next decade—a considerable loss of knowledge and skills. At the other end of the age spectrum, state pensions systems face difficulties now, when there are four people of working age to each retired person. By 2030, Japan and Italy will have only two per retiree; by 2050, the ratio will be three to two. An ageing, shrinking population poses problems in other, surprising ways. The Russian army has had to tighten up conscription because there are not enough young men around. In Japan, rural areas have borne the brunt of population decline, which is so bad that one village wants to give up and turn itself into an industrial-waste dump.

A fertile side-effect

States should not be in the business of pushing people to have babies. If women decide to spend their 20s clubbing rather than child-rearing, and their cash on handbags rather than nappies, that's up to them. But the transition to a lower population can be a difficult one, and it is up to governments to ease it. Fortunately, there are a number of ways of going about it—most of which involve social changes that are desirable in themselves.

The best way to ease the transition towards a smaller population would be to encourage people to work for longer, and remove the barriers that prevent them from doing so. State pension ages need raising. Mandatory retirement ages need to go. They're bad not just for society, which has to pay the pensions of perfectly capable people who have been put out to grass, but also for companies, which would do better to use performance, rather than age, as a criterion for employing people. Rigid salary structures in which pay rises with seniority (as in Japan) should also be replaced with more flexible ones. More immigration would ease labour shortages, though it would not stop the ageing of societies because the numbers required would be too vast. Policies to encourage women into the workplace, through better provisions for child care and parental leave, can also help redress the balance between workers and retirees.

Some of those measures might have an interesting side-effect. America and north-western Europe once also faced demographic decline, but are growing again, and not just because of immigration. All sorts of factors may be involved; but one obvious candidate is the efforts those countries have made to ease the business of being a working parent. Most of the changes had nothing to do with population policy: they were carried out to make labour markets efficient or advance sexual equality. But they had the effect of increasing fertility. As traditional societies modernise, fertility falls. In traditional societies with modern economies—Japan and Italy, for instance—fertility falls the most. And in societies which make breeding and working compatible, by contrast, women tend to do both.

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Sovereign-wealth funds

Governments go shopping

Jul 26th 2007
From The Economist print edition

Investment funds run by authoritarian governments sound scary. They are not

Claudio Munoz

GO FOR a walk in Chelsea, an expensive bit of London, and you may stroll by the Coldstream Guards' barracks, now the property of the government of Qatar; a branch of the venerable Barclays bank, soon to be part-owned by the People's Republic of China; and then buy a picnic at Sainsbury's, Britain's oldest supermarket, which the Anglophile Qataris are trying to buy too. What goes for Chelsea may soon be true for neighbourhoods in open economies all over the world: governments are on a shopping spree (see article).

The cash they are using mostly comes from sovereign-wealth funds, a catch-all term that describes investment pools into which governments channel money, usually earnings from oil exports or foreign-exchange reserves built up to keep their currencies cheap. These funds are already huge—worth between $1.5 trillion and $2.5 trillion, according to estimates by America's Treasury—and will swell further as governments switch a bigger share of their reserves from low-yielding assets like Treasury bonds to more adventurous investments. Morgan Stanley predicts that by 2015 sovereign-wealth funds could be managing $12 trillion.

The rich world's politicians are increasingly worried by this trend. Angela Merkel, Germany's chancellor, recently argued that the European Union needs new rules to regulate what the funds may buy. Their concern is understandable. The regimes that bankroll sovereign-wealth funds are often authoritarian and sometimes downright dangerous. What if a hostile government takes a stake in a strategic industry? What if it starts playing politics with its cash?

That's less dangerous than it might seem. In deals where national security is a concern—say, if a sovereign fund attempted to take a big stake in a defence manufacturer—processes to block takeovers already exist. And national security is at risk less often than most politicians believe. Even in sensitive industries, small foreign stakes pose little risk. Dubai International Capital, a sovereign-wealth fund, for instance, already owns 3% of EADS, maker of Airbuses and Eurofighters: that should not trouble anybody.

But what if, say, Russia, which already uses its gas supplies to further its political ends, were to try to take a large stake in a west European energy business? Shouldn't European governments worry about that? Not if the energy market is competitive and properly regulated. Ensuring that the market functions well is the best way to insulate consumers against the vagaries of a single supplier.

Open the books

The main reason to worry about sovereign-wealth funds' acquisitiveness is a narrowly financial one. With a couple of exceptions—the most notable being Norway's government pension fund—those funds make private-equity partnerships look like paragons of transparency. No one knows much about their internal checks and balances, investment strategy or commercial goals. Murkiness brings unpredictability, which financial markets do not like. If the Abu Dhabi Investment Authority, with an estimated $875 billion under management, decided to unwind a big position and nobody knew why, it could start a panic.

For their own good, sovereign funds should follow Norway's example and open up a little. More and better information on their strategy and holdings would reduce the odds of market panics and could even help to defuse political tensions. Western governments should agitate for greater transparency from sovereign funds. But they should resist the urge to put up the barricades.

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Regulating business

Smelly old SOX

Jul 26th 2007
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Sarbanes-Oxley is not as bad as it's cracked up to be

Satoshi Kambayashi

FIVE years ago this week, in the aftermath of the Enron and WorldCom scandals, George Bush signed the Sarbanes-Oxley Act into law. The president needed to restore public confidence in corporate America and to inoculate himself from accusations that he was too cosy with dodgy businessmen, such as his ex-pal, the former Enron chairman, Kenneth “Kenny Boy” Lay.

Today, SOX, as it is known, is widely reviled. In boardrooms across the world's mightiest economy, it has become shorthand for foolish, heavy-handed state interference in the wealth-creating marvel that is corporate America. The cost of complying with its requirements, it is said, has been far higher than predicted. It is blamed for promoting risk aversion and mistrust in corporate boardrooms, driving a growing number of public companies into the clutches of private-equity firms, and undermining the global competitiveness of America's capital markets (see article).

Much is wrong with SOX. It was passed in haste, and shoddily written. It took little account of current thinking about what a well-designed regulatory system should look like. Section 404 has caused the biggest problems. It makes top managers responsible for a firm's internal risk controls, and requires companies to produce an annual report in which outside auditors “attest” to their quality—a requirement that has turned out to be unreasonably expensive for small public companies.

But section 404 is being dealt with. Small companies have already won temporary exemption from full compliance. A newly issued set of guidelines for auditors ought to reduce the cost of complying with section 404 for other firms. And the other criticisms of the act are overdone.

At a time when profits and share prices are touching record highs, it is hard to argue convincingly that America's bosses have lost their capitalist zeal. Boardroom processes have certainly become more bureaucratic since SOX took effect, and board membership has shifted from entrepreneurs to watchdog types. That, however, is not necessarily a bad thing. Bosses may take fewer risks than they did in the past—but they may be taking the sensible risks, and avoiding the bad ones.

Firms are indeed flooding away from public markets; but that is happening across the world, so cannot obviously be blamed on SOX. More likely, SOX is a convenient scapegoat for the bosses of public companies, who tend to get more money and less exposure to complaints about fat-cattery when their companies go private.

As for capital-market competitiveness, some measures—such as the share of initial public offerings—do indeed suggest that America has lost out to other financial centres like London. But debate continues about whether that loss is due to regulatory excesses in America or improvements in other financial centres. London's regulator, the Financial Services Authority, has won praise for its light, but effective, touch. Even those who think America has done itself harm tend to pin the blame not on SOX but on other aspects of American life that impinge on business—an over-active Justice Department, for instance, over-powerful trial lawyers and excessive penalties for white-collar criminals.

In the raw

Once they have stopped fulminating, many bosses privately admit that SOX has brought benefits. Managers are now far more confident about the quality of the numbers they get from their business units. And if buoyant share prices are any indication, the public seems to have plenty of confidence in the markets. Since the purpose of SOX was to get a better deal for shareholders, it may deserve some credit for that.

Still, it is too soon for a final verdict on SOX. Only after the next economic downturn will it become clear whether the tighter rules have made American capitalism stronger or weaker. As Warren Buffett likes to say, “It's only when the tide goes out that you learn who's been swimming naked.”

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Islam and democracy

The lesson from Turkey

Jul 26th 2007
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Islamist parties that follow the rules should be allowed to win elections

AP

THE decisive victory by Turkey's ruling Justice and Development (AK) Party in the general election of July 22nd shows every sign so far of having been an excellent result. Big political rows, threats of military intervention, talk of invading northern Iraq, resurgent nationalism and discouraging relations with Europe and America: all that plus a mildly Islamist government in a fiercely secular republic could have been a recipe for trouble, coups, internal strife, you name it. But in fact Turkey has seen a thoroughly democratic election, not too much violence, a big turnout and a clear result (see article).

Among other things this seems a strong rebuke by voters to the army, which had hinted at interfering in the AK's choice of a presidential candidate. Though Turks still respect their army, most do not feel it should intervene in politics. They are also rewarding a government that has delivered good results and punishing opposition parties that offered incoherent and unconvincing policies. That is exactly how democracy should work. The army has absolutely no cause to intervene, though if the government is wise it will continue to be cautious about an Islamist agenda. Many Turkish voters may want to end the ban on the veil, but they show little appetite for more radical moves away from secularism.

Is there a lesson in Turkey for the future of democracy in the wider Muslim world? Yes, but approach with care. There are many paths to democracy, and the right choice varies from place to place. Turkey has an exceptional history. Simplifying mightily, its bumpy path to democratisation goes roughly as follows: set up an empire; inherit a caliphate; fight on the losing side in a world war; in desperation dissolve the caliphate and submit to the autocratic rule of a moderniser who pushes Islam ruthlessly to the margins; then wait the better half of a century for the emergence of an Islamist party that looks mild and moderate enough to be trusted with the reins of government. In short, squeeze Islam out of political life for decades before gingerly allowing a tamed version back in.

Learning from calamity

The trouble with this approach (apart from the long wait) is that things can go calamitously wrong both at the squeezing-out stage and at the letting-in stage. For an example of the first, look at Iran, Turkey's neighbour. From the 1920s on Reza Shah strove consciously to imitate the secular reforms of Kemal Ataturk by modernising his own country's economy and society at a furious rate and forcibly reducing the role of Islam. Iranians did not take kindly to this force-fed modernisation. The ironic upshot, one less effectual shah later, was the Islamic revolution of Ayatollah Khomeini in 1979, in which the clerics the shahs had tried to squeeze out of the picture seized ultimate power for themselves, and have kept it ever

since.

For an example of how things can go wrong at the letting-in stage, remember Algeria in 1992. In this case a secular leadership lost its nerve at the point when it had to decide whether the opposition Islamic Salvation Front (FIS) was in fact moderate enough to be allowed to take office after a landslide win in parliamentary elections. In the end the ruling party and army decided against. They cancelled the second round of elections, with catastrophic consequences. In the ensuing decade-long civil war some 200,000 Algerians were killed.

At the time, Algeria's decision to bar the Islamists from power was supported by leaders throughout the Arab world. Their argument was that parties such as the FIS were not true democrats. Once in power, it was alleged, they would never let it go: it would be “one man, one vote, one time”. In the case of the FIS, Algerians were prevented from putting the party's intentions to the test. But it is striking that precisely the same accusation has long been levelled at the AK in Turkey. Its leader, Recep Tayyip Erdogan, did indeed once say that democracy was a train, from which you could alight once you reached your destination. As prime minister, however, he and his party appear to have got the gist of what democracy really means. There is now no serious doubt that the AK would surrender power if it were to be defeated at the ballot box.

Why so? Some will say that the answer resides in Turkey's secular constitution and the presence of a fiercely secular army that is ready to step into politics the moment politicians threaten to cross the line. That may be too cynical. Another real and arguably stronger discipline on the AK arises from the experience of democracy itself. Mr Erdogan's party knows that its continuing political success and underlying legitimacy depend on listening closely to the desires of voters, which in turn requires it to moderate its Islamist ambitions and obey the rules of the democratic game.

If there is a broader lesson the Islamic world can draw from Turkey's success, it therefore lies in this. Islamist parties that declare themselves willing to abide by the rules ought to be allowed to participate fully in electoral politics. Though this prescription may sound obvious, it has yet to be swallowed in the places where it is needed most. In Egypt, for example, the Muslim Brotherhood remains squeezed out of formal politics despite its growing popularity. High time now to let it in.

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Britain under water

Building on sand

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Time to use insurance to stop people building on flood plains

Reuters

NO ONE in his right mind would build London today where its founders did. At the mouth of the Thames, it is threatened by the rush of water when there is flooding inland. On the edge of the North Sea, it is buffeted by sea surges when storms blow up offshore. The supremacy of water-borne trade that once dictated its location has ebbed: the cranes that dotted busy docks have given way to financial skyscrapers, trendy watering holes, “affordable” housing and excavations for the 2012 Olympics.

London is lucky. The centre of modern Britain's wealth, it has been powerfully protected from the sea by the great Thames Barrier, and against trouble upstream by sturdy cement dykes. Not so Tewkesbury, Gloucester, Oxford and other towns in southern England, desolated this week by river flooding on a scale not seen in 60 years (see article). Not so Sheffield, Hull and their Yorkshire neighbours, which suffered even worse inundations after heavy rainfall a month ago.

Weirder worldwide weather

Freakish phenomena are becoming less freaky all around the world. South-central Europe is fighting a heat wave fierce enough to cause forests to combust. In China, India and Pakistan over a thousand have died in floods in the past few weeks alone. Global warming may be changing the world's climate but personal and political choices determine how much damage it can do.

Britain's politicians are under attack. The central government, repeatedly warned, should have focused harder on flood defences. The quangos, local-government bodies and water companies involved in flood management have failed to co-ordinate and planners have been too willing to spread cement over land that used to absorb water. Sewers and drains have become antiquated and overloaded, and power, water and sewage plants too susceptible to floods.

Behind these failures lies a muddled, unwritten agreement made half a century ago, under which insurers have covered almost all homeowners against flooding at no extra charge. The government, in return, promised to maintain flood defences. With the true cost of flooding thus concealed, developers have been allowed virtually unchecked to build homes on flood plains in England (no longer in Scotland, Wales and Northern Ireland), and individuals have had no reason not to buy them. That deal has begun to break down, as claims from flooding increase, more reliable flood-mapping becomes available and competition among insurers makes the implicit subsidy from homeowners on high ground to low-lying ones less tenable.

The issue, and not only in Britain, is not so much how to pick up the pieces after disaster has struck but how to make it less likely to, and less damaging if it does. That means changing behaviour, not just writing cheques. A good place to start is to distinguish clearly what risks the state should underwrite from the greater ones that should be left to the individual.

Providing some physical degree of protection from flooding falls within the government's remit, a natural subset of defending the realm. But no more than that, for people tend to do stupid and lazy things—such as buying houses exposed to flooding and then failing to waterproof them—when no personal financial consequences flow from their decisions.

A tenth of English homes stand on flood plains. Their owners bought them on the assumption that they would be insurable against flooding, among other risks. The government and insurers should therefore find a way of continuing to offer them cover. But for new developments, insurance firms must be free to price the risk of flooding as accurately and transparently as they can. If it costs more to insure flood-prone properties, their price will be lower, and developers less keen to build them. That would be good: now that flooding seems to be a regular feature of the climatic calendar, mankind needs to start moving uphill.

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On Iraq, terrorism, Kosovo, China and Darfur, the Supreme Court, the pope

Jul 26th 2007
From The Economist print edition

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Staying the course

SIR – Your leader on Iraq underlines how electoral politics is eclipsing proper judgment of where the interests of the United States and the West truly lie ("Plan, don't panic", July 14th). The present debate in London and Washington threatens to snatch defeat from the jaws of victory.

We must clear away the fog shrouding the decision to invade Iraq in 2003. It may not have been about al-Qaeda when we went in, but it certainly is now. Victory means handing over to a national government that is able to keep al-Qaeda down and Iran out. Defeat—a hurried withdrawal—will surely result in greater carnage than we have yet seen and also hand a massive strategic victory to Iran and al-Qaeda. How could this possibly be in our respective national interests?

After all the mistakes, the Americans have found a commander who understands counter-insurgency war. On a recent visit to Iraq British commanders, with experience in Northern Ireland, told us that they can really work with General David Petraeus. He has put political reconciliation at the top of the agenda and, as you report, this is already bearing fruit in Anbar province. Sectarian deaths across Iraq have halved since their peak in December last year. Now is not the time to pull the plug.

Bernard Jenkin MP
House of Commons Select Committee on Defence
London

The motive of terror

SIR – After reading your leader about language and terrorism ("Don't mention the GWOT", July 7th) I'm still left wondering as to what the relationship between al-Qaeda and Islam is? There will always be terrorists, if not for one cause then for another, and they will always seize on religion or some other social factor to justify their ends. Look at the Basques. One would be hard-pressed to construe the Spanish government as tyrannical and oppressive, yet ETA still bombs away.

Terrorists vocalise an empty rhetoric in pursuit of their goals. Their real point is to strike terror, for the sheer delight of causing mayhem and to feel important. Yes, there may be a tenuous link with Islam. But please don't fall for the propaganda and give credence to the terrorists' claim to be fighting for justice, or liberation, or Allah or any other worthwhile or noble cause. This only gives them the satisfaction of believing they are heroes and martyrs.

Michael Eustace Erwin
Paris

Russia and Kosovo

SIR – You are right to point out that Russia's opposition to independence for Kosovo stems from a fear of the precedent it would set for other separatists ("A new battlefield", July 14th). However, Russia's opposition to the plan put forward by Martti Ahtisaari, the UN mediator, is based not on the concepts of Slav solidarity and Russian imperialism, but on a genuine fear of the full regional and global implications. Making Kosovo an exception to the framework of international law would only encourage other separatist movements and act as a catalyst to territorial problems across the globe.

Our position has been consistent. In accordance with the norms of international law we believe that there should be a jointly accepted, negotiated settlement agreeable both to Kosovo and to Serbia. We do not claim that the territorial and constitutional status of territories cannot evolve. We simply state that, if and when they do, they should do so on the basis of mutual agreement.

The suggestion that Kosovo should declare independence unilaterally is unhelpful. Such contempt for the multilateral mechanisms of international relations would only continue to undermine the institutions already badly damaged by actions of the recent past.

Yuri Fedotov
Ambassador of the Russian Federation
London

China and Darfur

SIR – The picture painted by the advertisement you carried from the “Save Darfur” campaign about China's role on the Darfur issue was flawed and misleading (July 21st).

The Sudanese government has just explicitly declared the unconditional acceptance of the third phase of the Annan Plan and reached agreement with the United Nations and the African Union on sending a hybrid force to the Darfur region. This positive development is attributable to efforts made by all parties concerned. The Chinese government of course has made its own contribution, which is widely recognised by the international community.

When meeting in Beijing with Sudanese First Vice-President Salva Kiir Mayardit on July 19th 2007, President Hu Jintao said that China would firmly support Sudan's comprehensive peace process and contribute to stability, reconstruction and development in Sudan. He called on the international community to “seize favourable opportunity” at present and push forward peacekeeping and the political process in a balanced way and help the Sudanese government to improve humanitarian and security situations in the Darfur region.

The Chinese government is also committed to dispatching a multi-function engineering unit consisting of 275 people to the Darfur region in support of the UN's endeavour. Chinese leaders and officials are working hard towards the early resolution of the Darfur issue. The Chinese government is ready to work even harder with the international community to further commit themselves to safeguarding a unified, not a divided, Sudan, whose sovereignty and territorial integrity should be duly respected.

Zhao Shangsen
Press officer
Chinese embassy
London

Judicial review

SIR – Lexington argues that the conservative-leaning Supreme Court could be good for liberals and force them “to rediscover the lost art of popular persuasion” (July 7th). Part of the court's purview is to seek remedy against discrimination. If we had waited for opinion to change in response to “popular persuasion” the South would still have codified segregation.

In the case of gay marriage, Lexington insists the proper forum is the legislature. In New York state the electorate is split on the idea; the Assembly has passed a bill, but the Republican Senate is opposed. The rights of gay citizens remain in limbo. Why should anyone who is discriminated against today have to wait five years, or a generation, for public opinion to come around and grant them the equality to which they are entitled?

Sean LaPides
New York

An article of faith

SIR – Will other members of the intelligentsia be as shocked as you were (“An author and his subject”, June 30th) to learn that a book written by the pope “remains uncompromising in its insistence on the

divinity of Jesus Christ"? As you are clearly irritated by his unwavering position, it might help if I let you in on a Vatican secret: the pope is Catholic.

Darr Schoenhofen
Phoenix, New York

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Japan's changing demography

Cloud, or silver linings?

Jul 26th 2007 | TOKYO
From The Economist print edition

Japan's population is ageing fast and shrinking. That has implications for every institution, and may even decide the fate of governments

Corbis

Get article background

FOR intriguing evidence of the way Japan's 127m people are greying faster than any others on earth, look at the boom in *pokkuri dera*. *Pokkuri* is an onomatopoeic word for a sudden bursting, while a *tera* or *dera* is a Buddhist temple. *Pokkuri dera*, then, are shrines where many of Japan's older people go to pray not only for the long life that they are increasingly coming to expect, but also for a quick and painless death at the end of it. Their visits have revived the fortunes of old-established temples, notably in the ancient capitals of Kyoto and Nara, while temples elsewhere have reinvented themselves as *pokkuri dera* with the financial blessings in mind.

More dramatic evidence of the ageing effect may come with nationwide elections on July 29th. Japan's older voters have the ability, for probably the first time in democratic history, to humiliate and even bring down a government, that of Shinzo Abe, prime minister since September 2006. The elections are for half the seats in the upper house of the Diet (parliament), and are ordinarily something of a political sideshow: after all, it is the lower house that chooses the prime minister. A general election in 2005 gave the ruling coalition led by the Liberal Democratic Party (LDP) an easy majority. Yet these elections, in which the coalition may lose its upper-house majority, have become a vote of confidence in Mr Abe, whose poll ratings have slithered since almost the moment he came to office.

While the prime minister's priorities are patriotic ones—instilling a sense of national pride in schoolchildren and pushing for a revision of Japan's pacifist constitution—those of ordinary Japanese lie with bread-and-butter issues. The economy is now into its fifth year of recovery after a decade-long slump, but decent jobs are still short. As for pensions, everyone knows that a shrinking workforce supporting an ever higher number of retired people adds to an already strained budget.

In this context, a fiasco that was uncovered in May at the government agency that handles pensions could not have come at a worse time for Mr Abe. The agency, which appears never to have come to terms with the digital age, is unable to match 50m computerised pension records to people who have paid into public schemes. A further 14m records, it seems, never made it into the computer system at all.

If disgruntled voters punish the ruling coalition on July 29th with a heavy loss of seats, then the LDP may seek a new leader. If Mr Abe survives as prime minister, he will be under pressure to form a government

of a different hue, one that brings livelihood issues to the fore. Either way, grey power will have established itself as a force to be reckoned with.

Certainly Japan is greying at an astonishing rate. Shortly after the second world war the proportion of Japanese over 65 was around 5% of the population, easily below that in Britain, France or America. Today the elderly account for one-fifth of the population, and average lifespans have grown remarkably. Life expectancy today is 82, up from a little over 50 in 1947.

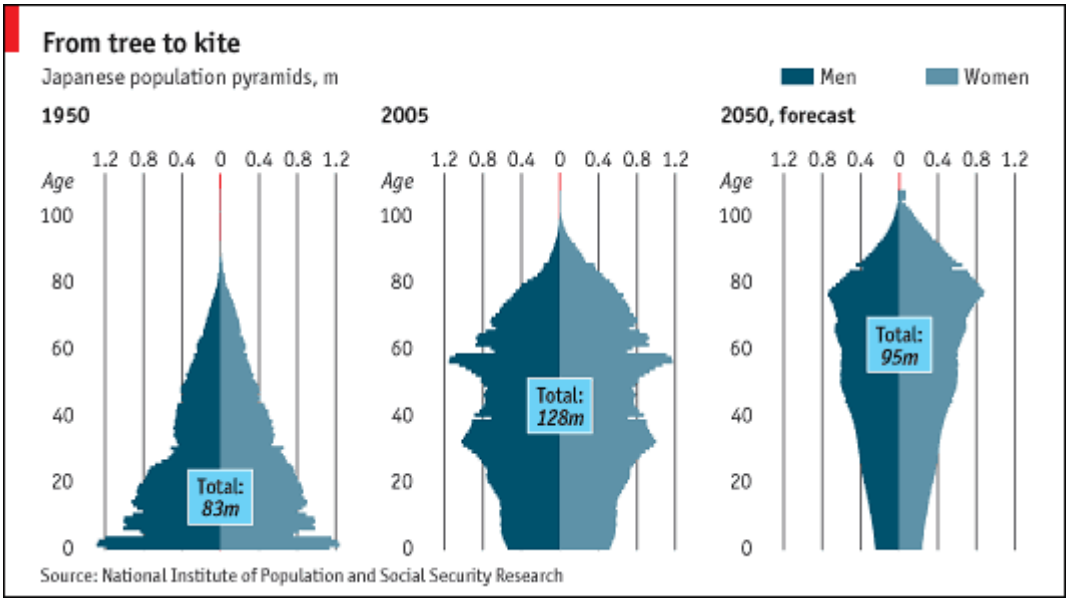
By 2015 the proportion of elderly will have risen to one in four of the population, or more than 30m. This is thanks mainly to an unusually large baby-boom generation passing into the ranks of the old. Between 1947 and 1949, 2.7m children a year on average were born to surviving Japanese soldiers who returned from war, married and settled down—about a third more than in previous years. This year, the baby-boom generation began to retire (at present, 60 is the mandatory retirement age at most companies). The size of their pensions obligations has funding implications both for companies and for government. But there is another dimension to the baby-boomers' retirement: these workers drove Japan's economic transformation of the 1970s and 1980s. They are a reservoir of technical and managerial skills.

Who to pass these on to? Japan's birth rate fell below the replacement rate of 2.1 in the early 1970s. It slid to a low of 1.26 in 2005, before inching up last year to 1.32—nobody calls it a recovery. In 2005 Japan's population began to fall in absolute terms, despite increasing life expectancy. It is about to shrink at a pace unprecedented for any nation in peacetime. The National Institute of Population and Social Security Research estimates a total population of 95m by 2050, with the elderly accounting by then for two-fifths of the total.

The disappearing young

A shrinking population already has implications for the workforce. Currently, some 16m Japanese are in their 20s. This number will shrink by 3m over just the next decade. This spring, during the annual job-recruitment round, new university graduates found themselves in record demand, and not just because of the recovering economy: over the coming years, companies will have fewer young graduates to choose from. That is nice for young job-seekers, except for one thing: as Japan ages and shrinks, workers must support an ever larger proportion of retirees. By 2030, demographers say, Japan will have just two working-age people for each retired one; by mid-century, short of a rapid and unlikely return to fecundity, the ratio will rise to three for every two retirees.

Can a working population support such a number of future retirees? Today's younger workers appear not to think so. Two-fifths of them are not paying contributions towards the fixed portion of their state pension scheme (current contributions fund present, not future retirees), suggesting they don't believe that the scheme will be viable when they retire. And they may be right.



It is in the countryside that demographic changes hit particularly hard. There the population has been falling for years, as younger villagers head for the city in search of work and play. Today, those over 65 account for two out of five people in rural communities, and three-fifths of all farmers. The future of farming in such places is in doubt. Growing rice, the staple crop, requires communal efforts in irrigation, flood control and the like. Mutual obligations in communities run even to organising funerals. So when young villagers leave for the city, everyone feels the loss. An earthquake on July 16th in Niigata prefecture brought the problem home; the 3,000 evacuees still living in shelters are predominantly elderly, unable to fend for themselves in their damaged houses.

The tiny hamlet of Ogama, in Ishikawa prefecture near the Sea of Japan, is responding most radically to population decline. (The community has three men and six women between the ages of 62 and over 90, down from a population of 50 a generation ago.) The survivors of this remote and stunning valley have canvassed an industrial-waste company from Tokyo and, if the prefecture approves, the valley—paddy fields, vegetable plots and cedarwood plantations—will disappear under 150 metres (500 feet) of industrial ash. The villagers plan to use the money from the sale to build new houses in the nearby township, to where the ancestral shrine has already been moved.

For years, the regions have brought their problems to the capital. On any working day in Tokyo, the corridors of the transport and infrastructure ministry are thronged with supplicants from the provinces clutching maps of the latest scheme for a road into the forest or an unnecessary dam. Yet the days of lavish spending on public works are nearly over, while the central government has slashed tax remittances to localities. With pinched resources and the prospect of steep falls in the population, local governments are being forced into the most radical reorganisation in half a century.

A couple of much-publicised municipal bankruptcies have helped sharpen minds. Yubari, a former mining town on the northern island of Hokkaido, has seen its population fall from 100,000 in the 1950s to 13,000 today. Costly promotions to raise the town's profile—including a film festival and the marketing of Japan's priciest melons—have saddled the town with a crippling ¥63 billion ($519m) in debts. Last year Yubari was declared insolvent.

No nearby municipalities particularly want to be Yubari's friend, but elsewhere the central government is urging villages and towns to merge in order to pool resources and gain a more secure tax base. Yamanashi prefecture south-west of Tokyo, a place of peach orchards and factories making industrial robots, exemplifies the trend. In 1888 Yamanashi had 342 administrative units; today, it has shrunk to 28 municipalities and is still declining. The pace has quickened greatly since 2003.

But municipal mergers are unlikely to be the end of the matter. Prefectural leaders and central government are talking about a radical rehaul of local government in which prefectures merge to form larger blocks—states, in essence. Before this dance has begun, prefectures are already eyeing up the most attractive partners.

To shrink a city

Elsewhere, administrators are starting to think about the implications of population decline, among other things, on running bigger cities. Aomori, a city of 300,000 at the very top of Honshu, Japan's main island, has a policy of actively stemming the urban sprawl that blights so much of Japan. Aomori has a proportion of elderly and single households somewhat above the national average. It also has huge quantities of winter snow, thanks to the moisture that Siberian winds pick up across the Sea of Japan: ten metres can fall in a season. In a bad year snow-clearing can cost ¥3 billion: a sum which Takeshi Nakamura of the city government says could build two new schools.

In response, the municipal government set about trying to shrink the city. A limiting arc was drawn around its south side (the north is bounded by a wide bay), and some of the city's main institutions—the library, city market, hospitals and museums—were moved back to the middle of town. Public transport was improved, and snow was cleared from main arteries as well as pedestrian streets to allow people to move easily about the centre. The improvements, in turn, have encouraged new apartment blocks to be built near the centre, says Mr Nakamura, and plenty of older people tired of shovelling snow are moving into them.

Aomori's ideas about a “compact city” have been driven by the problems of snow. All the same, says Takatoshi Ito of Tokyo University, who sits on Mr Abe's Council for Economic and Fiscal Policy, the central government should be urging other cities to think along similar lines. Population decline does not mean there is no urban sprawl. Mariko Fujiwara of the Hakuhodo Institute of Life and Living points out that the number of one-person households will overtake all other types this year, while the total number of households is still rising in Japan, to almost 50m.

Kaisha care

Still, the greatest response to demographic change in Japan needs to come from companies. Despite wrenching change over the past 15 years or so, the Japanese company, or *kaisha*, still plays a more paternal part in employees' lives than in any other well-off society, shaping not just their work but also their social life. Indeed, with long hours in the office as well as punishing sessions in bars with colleagues afterwards, the two are often indistinguishable. Atsushi Seike, a labour economist at Keio University, argues that Japan's problem is less that demography is changing too fast, than that employment and retirement systems designed for an earlier age are not changing fast enough.

In particular, these systems have not kept pace with greatly longer lives. True, the government has begun to raise the age at which people are eligible for employee pensions, which are made up of fixed and earnings-related parts. Eligibility for the fixed part has been raised to 62, and will climb to 65 by 2014; eligibility for the bigger, earnings-related part rises to 65 by 2026. This is too little, too slow. Mr Seike argues that the state minimum pensionable age should be raised swiftly to 70.

Meanwhile, companies are also adjusting too slowly. Most firms have a mandatory retirement age of just 60. A recent law requires them either to raise their mandatory retirement age over time, or to provide retraining and re-employment programmes to keep on employees. Most have opted for the latter; since most companies have formal pay scales that reward seniority over merit, raising the mandatory retirement age would be expensive. However, one big company, Kawasaki Heavy Industries, has broken new ground: in 2009, it will raise mandatory retirement to 63 while slashing pay.

Getting rid of mandatory retirement altogether would hasten the end of seniority-based pay, allowing older workers (who in Japan are eager to work for longer) to fill jobs for which they are best suited. A system based more on merit would give able younger workers a leg-up too.

Raising the retirement age to 70 would roughly halve the rate of decline in the workforce. Raising the participation rate of women—at 63% of working-age women, below Britain or America (around 68%)—would do much to slow it further. A number of factors militate against working women. A higher proportion of women than men find jobs only on temporary contracts, which pay on average 60% less than regular work. Male chauvinism still dominates in the office: many jobs are advertised as available only to younger women, while fewer than 10% of professional managers are women, against 46% in America. Meanwhile, companies' long hours (often a substitute for productivity) make things hard for working mothers. So too does a shortage of child care: just a third of children over three and under school age go to kindergarten, compared with an OECD average of three-quarters. Huge numbers of women drop out of the workforce entirely once they have children. In Japan, says Jeff Kingston of Temple University in Tokyo, women have to choose between work and family.

Meanwhile, the OECD notes a positive correlation between fertility and female employment: the easier it is made for women to do rewarding work, the more likely they are to consider having children. So policymakers in Japan are now starting to grapple with the effect of Japanese work habits on the low birth rate. Hideki Yamada, director for policy on ageing and fertility in the Cabinet Office, says surveys suggest that nine-tenths of Japanese aged 18-34 not only want to get married, but often want to have two children. With Japanese precision, policymakers have calculated that without impediments to marriage and child-raising, Japan's birth rate would jump to 1.75.

Policy, says Mr Yamada, should be directed towards making that leap. Attempts began under Mr Abe's predecessor, Junichiro Koizumi, with the introduction of financial support for families with young children and expansion of child-care facilities. Now a novel concept is creeping into government documents, “the work-life balance”, for which, tellingly, there is no common Japanese expression. In late July, business and union leaders met Mr Abe and other ministers to discuss how to reach such a balance.

“It's embarrassing to say this,” admits Mr Yamada, “but after a first child is born, the husband often doesn't do his bit helping out at home, and that engenders anxiety in the wife about having a second child.” That is partly cultural habit. Boys are pampered at home by their mothers and expect the same treatment—no nappy-changing, no washing up—later from their wives. But it is also because of the long working hours companies expect. So, says Kuniko Inoguchi, minister for gender issues and social affairs under Mr Koizumi, policy needs not only to be directed towards encouraging more women to work, with more nursing care for elderly relatives, better child care, more flexible working arrangements and so on. It also needs to make life better for working men.

A better work-life balance is good for companies, which can thereby attract better talent. It is also good for working men, says Mrs Inoguchi. They can enjoy a proper private life, spending more time at home—always assuming, and it is no foregone conclusion, that Japanese wives are prepared to tolerate them there.

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Prison conditions

Gently does it

Jul 26th 2007 | SPRINGVILLE, ALABAMA, AND TUTWILER, MISSISSIPPI
From The Economist print edition

AP

Excessively harsh conditions seem to make criminals more likely to re-offend. Are private prisons the answer?

Get article background

LIFE, which in Alabama really means life, is better than it once was at the St Clair Correctional Facility, a maximum-security jail near Birmingham. In 1985 prisoners rioted over what they called barbaric conditions, taking 22 hostages, breaking the warden's jaw and beating his deputy so badly that he lost all memory of the assault. Six years ago, six dangerous inmates escaped under a faulty lethal electric fence. All six were recaptured, but angry Alabamians demanded that someone sort the jail out.

That someone was Ralph Hooks, the new warden who took over just after the escape. He tightened up security, adding ten miles (16km) of razor wire and a fence that trips an alarm if climbed on or tampered with. But perhaps more importantly, he tried to make the jail a less horrible place to be locked up in. When he arrived, he found that a few officers were handcuffing and beating inmates to punish them. One was demanding protection money from an inmate's family. Mr Hooks sacked or suspended all the abusers he could catch, and one was prosecuted.

Now, he reckons, the prisoners feel they are treated fairly, and are less likely to riot. If an inmate has a grievance, he can come and discuss it face to face with the warden. Inmates (see above) even teach each other to read. A slight man on the point of retirement, Mr Hooks mingles fearlessly with hundreds of muscular, tattooed prisoners, who address him with respect and an occasional smile.

Under Mr Hooks, the jail is no longer barbaric. But it is still grim. For a start, it is over-crowded. Three sweaty thugs are often crammed into a 69-square-foot (six-square-metre) cell with little light and no air-conditioning. In the Alabama summer it is fearfully hot. “If we had air-conditioning, we'd maybe have fewer fights,” says Mr Hooks, but there is no chance, he reckons, that the Alabama legislature will give him the money. Schools, roads and the needs of law-abiding folk come first.

But law-abiding folk would presumably prefer not to be mugged or murdered, so they ought to care whether prison conditions make that more or less likely. Obviously, jail takes criminals off the streets. What is less clear is whether tough conditions in jail reduce crime beyond that, by acting as a deterrent, or raise it, by brutalising prisoners and making them more prone to re-offend once released.

Two studies draw contrary conclusions. Lawrence Katz, Steven Levitt and Ellen Shustorovich examined the death rate in American jails (excluding executions) as a proxy for harsh conditions. After looking at data in every state between 1950 and 1990, they estimated that each death in prison was associated with between 30 and 98 fewer violent crimes being committed. They concluded that tough conditions do deter potential criminals, though they cautioned that this did not necessarily mean they were desirable, since even criminals have rights.

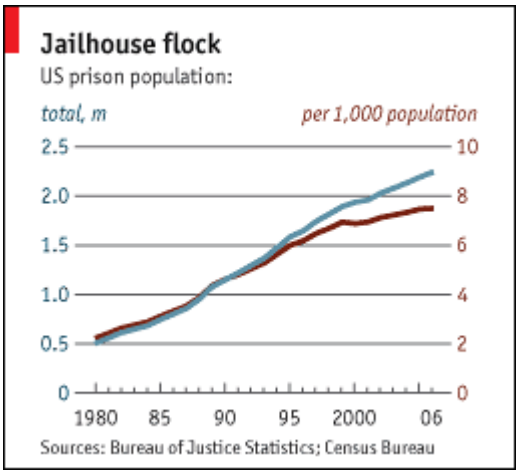
Keith Chen of Yale and Jesse Shapiro of the University of Chicago approached the problem another way. They recently compared the experiences of prisoners who were nearly-but-not-quite bad enough to be put in a high-security jail with those only just bad enough to be in one. These two groups, they assumed, would be similar in temperament; but those in higher-security jails would endure a harsher regime and nastier cellmates.

By comparing recidivism rates for the two groups, Messrs Chen and Shapiro estimated whether tough conditions made bad men worse. They concluded that they did: similar prisoners held in higher security jails were 10-15 percentage points more likely to be re-arrested after being released. Since they estimated this effect to be larger than the deterrent effect identified by Mr Katz and co., they concluded that humane jails make for safer streets.

Mr Hooks reckons that it all depends on the individual. Good conditions may help one inmate re-enter society; a Spartan environment may deter another, he says. Personally, he bends towards rehabilitation rather than punishment. Inmates at St Clair are offered drug treatment and job training. There is a well-stocked law library—"so they know how to sue me," he chuckles. Some Alabamians complain that taxpayers' money should not be wasted on educating criminals. Mr Hooks says he asks such people whether they would prefer the ex-con next door to be unskilled and jobless. Alabama's current commissioner of prisons, Richard Allen, is also keen on rehabilitation. In April, noting that 95% of prisoners are eventually released, he announced a new programme to help them find a place to live, a job and help with staying off drugs.

But for those still behind bars overcrowding remains a serious problem, and not only in Alabama. Thanks largely to tougher sentencing, the number of prisoners in America exploded from 500,000 in 1980 to 2.3m in 2006. Although the rising ratio of prisoners to the general population has been levelling off since 2000, the absolute number is still growing steadily (see chart).

Overcrowding could be eased by jailing fewer people or by building more cells. Leniency is unpopular, however, even though non-violent drug offenders make up between a fifth and a quarter of prisoners, and many could be treated rather than jailed without endangering the public. Building new prisons, meanwhile, is costly. California decided last year to spend $7.8 billion to expand its prisons, but still the plan was struck down by judges this week as unworkable. Some states, including California, are finding that they can save money by making more use of private prisons.



This is controversial. But contrasting St Clair with a prison operated by the Corrections Corporation of America (CCA) suggests that it may not be a bad idea. Their facility in Tutwiler, Mississippi, is light and air-conditioned where St Clair is dark and steaming. It is less crowded and has a freshly-painted feel; St Clair is shabby and peeling. The sports facilities are better. "We try to wear them out so they go to sleep—like you do with your kids," says the warden, Robert Adams.

Inmates who have tasted both public and private lock-ups say they prefer the latter. "You've more things in CCA. More programmes. Better rec[reational facilities]," says Anthony Palabay, the sex offender in charge of in-jail movies. (Films with too much sex or racial tension are barred.)

The main reason states contract with private jailers is to cut costs. Tony Grande, a vice-president at CCA, says his firm typically charges 5-15% less per prisoner than a state would spend. The firm has economies of scale—it guards more prisoners than any state bar California, Texas or Florida. It can assemble a jail quickly and cheaply using standardised parts. It lacks a state's cumbersome bureaucracy. It builds smart jails, where fewer staff can watch more prisoners, and it builds where land and labour are cheap.

Private prisons are cheaper and at least as humane as public ones. But one way they curb costs is to

take prisoners from any state that has more than it can handle and lock them up wherever they have spare capacity. Mr Adams, for example, guards a crowd of Hawaiians and is expecting an influx of Californians soon. This matches supply with demand, but holding prisoners so far from home that their families can probably never visit seems unduly harsh. The Hawaiians at Tutwiler can talk with their loved ones via a video link-up, but can hug them only if they can afford the air fare.

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The Democrats debate

Innocence and experience

Jul 26th 2007 | WASHINGTON, DC
From The Economist print edition

Hillary Clinton wins another debate

AFP

Hillary victrix

THE worst moment for Barack Obama in the Democratic candidates' debate on July 23rd followed a slightly offbeat question. If elected, wondered a questioner, would candidates commit to meeting with the leaders of Iran, Syria, Venezuela, Cuba and North Korea, without preconditions and within one year?

I would, said Mr Obama, without hesitation. “And the reason is this, that the notion that somehow not talking to countries is punishment to them—which has been the guiding diplomatic principle of this administration—is ridiculous.”

He said a few more inspirational words. And things were fine, until Hillary Clinton's flattening response. “Well, I will not promise to meet with the leaders of these countries during my first year,” she said. The president of the United States of America, she continued, should be circumspect about foreign leaders who might want the meeting for propaganda purposes. Best to send advance envoys to test the waters.

It was perhaps unfair to imply that Mr Obama wants to skip off for a kaffee klatsch with Hugo Chávez right away. But it did make him look a bit naive. The point went to Mrs Clinton, who leads most national polls of Democratic primary voters by a healthy margin of around 12%. Mr Obama, who typically comes second with about a quarter of the vote, wants to cast her as the status-quo candidate. But the exchange served to remind watchers that the opposite of experience is innocence. At least Mr Obama had a better time than John Edwards, the only candidate taken to task for opposing gay marriage.

The debate—actually the fourth, but the first to be officially sanctioned by the party's national committee—was sponsored by CNN and YouTube. The eight candidates had to respond to questions posed by ordinary Americans via video clips. This was an inspired idea, as one of the chief pleasures of a presidential campaign is seeing serious candidates subjected to minor indignities. A snowman asked, in a high-pitched accent, whether his son would survive global warming. Some questions, about health care and the war, were genuinely touching. Others alarmed: a man from Michigan, cradling an assault rifle, asked whether Democrats would try to interfere with his “baby”. “If that's his baby,” said Joe Biden, “he needs help.”

It was one of several good moments for Mr Biden, a senator from Delaware who has run before and who has little support in the polls. He was forthright about the difficulties of winding down the war in Iraq and

gave an eloquent pitch for American intervention in Darfur.

But the debate, like the previous three, went best for Mrs Clinton. Her answers were clear and assured, if not exactly revelatory. She boasted that she is prepared to hit the ground running. This was a reasonable claim, given the discipline her campaign has shown thus far and her eight years in the White House, and is clearly one of her strongest points. It will appeal to the millions of Americans who want to put the Bush era behind them with all available speed. The nomination is not yet Mrs Clinton's, but it increasingly looks as though it is hers to lose.

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California's budget

The penny drops

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From The Economist print edition

Partisan, debt-ridden and reckless

CALIFORNIANS like to think of their state as a democratic laboratory, busily inventing ideas that are copied elsewhere. When it comes to budgeting, though, the rest of the world should follow almost any other example. As *The Economist* went to press, the legislature was debating a budget that one senator described as having been written by chimpanzees. It is almost a month overdue. By California's standards, this is pretty good going.

Republicans are causing the delay, as in the past. Ignoring pleas from Arnold Schwarzenegger, the governor, Assembly members won some spending cuts and tax breaks. Then, while they hit the beaches, state senators demanded further cuts. Last week, in order to try to end the debate, the Democratic Senate president locked them in. Senators lounged around like teenagers at an all-night party, amusing themselves by sending messages to conservative blogs. “To update you—we've done nothing,” wrote one. They want a mixture of real and symbolic sacrifices—less money for environmental litigation and trade-union studies, for example.

Republican politicians are digging in their heels over the budget for two reasons. The first is that they can. California is one of only three states (the others are Arkansas and Rhode Island) that require a two-thirds vote in both houses of the legislature to approve a budget. Republicans are pushed around when it comes to legislation: since 1970 they have controlled the state Senate for just two years and the Assembly not at all. During the annual budget negotiations they take their revenge.

The second reason is ideological. California's districts are so shamelessly gerrymandered that hardly any races are competitive. The elections that matter are the primaries, which are dominated by zealots. The result is a political system in which moderation is punished, both by voters and by other politicians. Dick Ackerman, head of the Senate Republican caucus, adopted a co-operative, pragmatic approach to last year's budget negotiations. The result was a putsch that nearly dislodged him. Chastened, he promised to take a tougher line on this year's budget.

Republican spines are further stiffened by conservative bloggers such as Tom Del Beccaro and Jon Fleischman. Most bloggers rant and rave outside the gates, but in California they hold positions of power within the party: Mr Fleischman is the vice-chairman for southern California.

It would be nice to report that a small band of hard-nosed Republicans was bringing fiscal restraint to California. Unfortunately, it isn't true. Republicans have been better at pushing for tax cuts than at balancing the budget. This year the state spent a higher proportion of Californians' incomes than it has for more than a decade. And, having approved tens of billions of dollars-worth of bonds to pay for everything from stem-cell research to road mending, it is racking up ever more debt.

The Republicans are right about one thing: California's finances are a mess. Thanks to cuts in property rates, the state depends on personal income taxes for 46% of its revenues, more than in all but seven states. And because its taxes are so progressive, it relies especially heavily on the fortunes of the rich. “If the bottom drops out of the stockmarket, the bottom drops out of the budget,” says Jean Ross of the California Budget Project. Partisan posturing, debt and financial gambling: no way to run the world's eighth-largest economy.

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New Mexico

The politics of Indian coal

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A planned power plant has a green candidate looking black and blue

THE cornerstone of Bill Richardson's campaign for the Democratic nomination has been his efforts to curb greenhouse-gas emissions. Under his tenure as governor, New Mexico has set some of the country's toughest greenhouse-gas reduction mandates and renewable-energy standards.

So it seems odd that until very recently, he has been silent about plans to build a 1,500-MW coal-fired power plant on the Navajo Nation, a vast swathe of territory that straddles New Mexico and Arizona. The plant, Desert Rock, is owned jointly by the tribe's power authority and Houston-based Sithe Global Power, which in turn is majority-owned by Blackstone, a large private-equity firm. The facility would spew out up to 11.5m tonnes of carbon dioxide a year as it feeds the power needs of the booming south-west, primarily around Phoenix and Las Vegas.

Mr Richardson is on a political tightrope. The Navajo president, Joe Shirley, and the tribe's elected governing council overwhelmingly favour the facility. They say it will bring jobs to the more than 200,000 Navajo who live on the reservation, where half of adults are unemployed and the average household earns less than $8,000 a year. The project would also extend $50m annually to the tribe from tax and royalty revenues—money that can be channelled into health, education and other services, according to Mr Shirley's spokesman.

But critics, including many Navajos on the reservation, say the jobs the development will offer (1,000 construction jobs and 400 permanent ones) won't be plentiful or high-paying enough to offset the environmental damage the facility and an associated coal mine will cause. Ray Begaye, a Democratic state representative and a Navajo, worries that the new power plant will suck water out of the area's aquifer and contaminate it with mercury and other toxins.

In the past few days, amid heated public hearings over the proposed power plant's environmental impact, Mr Richardson's staff at last prepared a statement on his behalf. Desert Rock, according to the statement, “would increase New Mexico greenhouse-gas emissions by about 15%, making (Mr Richardson's) aggressive greenhouse-gas reduction goals difficult—if not impossible—to meet.”

New Mexico's state legislature earlier this year threw an obstacle into Desert Rock's path by turning down its owners' request for an $85m tax credit to defray construction costs. Mr Richardson, meanwhile, may have a rough time keeping both friends and promises.

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New York

A spill grows in Brooklyn

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From The Economist print edition

New York's attorney-general takes on big oil

NEWTOWN CREEK, which separates Brooklyn from Queens, is nowhere near as picturesque as its name suggests. The 3.5-mile (5.6km) waterway is flanked by industrial buildings and warehouses. There is little, if any, marine life. Much of the surrounding land is considered to be a brownfield zone. The only people on the river are on the gridlocked bridge overhead. The creek is coated with an oil spill that floats on the contaminated water.

AP

There's oil in that there creek

After decades of neglect, the state is at last intervening. Last week Andrew Cuomo, New York's attorney-general, filed a suit against Exxon Mobil, the world's biggest privately-owned company, to force a faster clean-up of the spill. It is about one-and-a-half times bigger than the infamous one caused by the *Exxon Valdez*, which dumped 11m gallons of oil off the Alaskan coast in 1989. The Brooklyn spill is estimated to have been at least 17m gallons (64m litres) at one stage, extending over 100 acres (40 hectares). It still covers about 55 acres.

According to the complaint, a swarm of toxic pollutants is being discharged, including benzene, arsenic and lead. Tests also indicate that methane, an explosive gas, is in vapours near the spill. Some think the oil has been leaking since the early 1900s. A 1950 industrial explosion exacerbated the problem. It was ignored until the Coast Guard “rediscovered” it in 1978, and determined that the oil was coming from nearby refineries and storage facilities. It was not until 1990 that Exxon Mobil, the company primarily responsible for the spill, signed a consent agreement with the state to clean up the creek.

The toothless decree, says Alex Matthiessen, the president of Riverkeeper, an environmental NGO, lacked any deadline or benchmarks. Nor did it include penalties for non-compliance. Most agree that the clean-up has been sluggish. Furious about the slow pace, Riverkeeper filed suit in 2004. Another lawsuit, filed by Greenpoint residents worried about their health and property values, is also pending.

Mr Cuomo, who called the spill “one of the worst environmental disasters in the nation's history”, announced his intent to sue Exxon Mobil and four other companies in February. The other firms are still in talks with the state. According to the complaint, spills from Exxon Mobil have been seeping into the ground, creating the floating plume of oil. This is “contaminating both the groundwater and the surrounding soil”. The complaint calls for a full and speedy clean-up and financial penalties. Barry Wood, an Exxon Mobil spokesman, says the allegations of negligence are unfounded; the company fully intends to comply with the clean-up, and has cleared 6m gallons of oil so far.

Mr Cuomo—son of Mario, a famous New York governor who never quite became a presidential candidate—has also been busy on other things. This week he released the results of an investigation into Joseph Bruno, the state Senate's majority leader, and his alleged misuse of state aircraft and state police. Shockingly, he found that Governor Eliot Spitzer's top aides used state police to drum up dirt on Mr Bruno and then planted the story. The aides have been reassigned or suspended. Mr Cuomo says there is no evidence Mr Spitzer was involved. It is one thing to take on big oil, another to face down New York's steamrollering governor.

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Phoenix

Into the ashes

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From The Economist print edition

A city that once won prizes is now a crime-ridden mess

MICHAEL ZISTATSIS, a restaurateur in downtown Phoenix, used to be excited by the prospects that only a gentrifying city, more foot traffic and wealthy new locals can bring. His business had been growing steadily for years. But now things have changed. City planners decreed that there should be a light railway linking Phoenix to neighbouring cities such as Scottsdale. The construction work, which is currently ripping up miles of downtown Phoenix, makes walking and parking almost impossible; so few feel motivated to shop or dine there. Proprietors like Mr Zistatsis, whose clientele has dropped by 30% since 2005, feel distinctly miffed. And they are not the only ones losing faith in Phoenix, a victim of ill-managed city planning.

Phoenix was once hailed as a model city. It grew fast. Its streets were new and shiny, and housing was cheap. Beginning in 1950, the National Civic League voted Phoenix an “All-American City” four times. In 1993 an international competition rated Phoenix, along with Christchurch, New Zealand, the world's best-governed city. *Forbes* recently ranked it as America's second-best job market, thanks to its buoyant property market and rapid urban growth. In the past five years metropolitan Phoenix's population has grown by almost a fifth, to over 4m.

But in the past few years the awards have mostly dried up and things have started to go wrong. Burglary, theft and car crime are among the highest in the country. Newcomers who left Los Angeles to avoid smog and commuter traffic find that both are little better in Phoenix, and the area scores embarrassingly low in national education ratings. In October the Morgan Quitno Press, a research group, credited Arizona with the worst public education in the country, thanks to overcrowded classrooms, poor test scores and low salaries for teachers. Why the decline?

Kristin Koptiuch, an associate professor of anthropology at Arizona State University (ASU), thinks one problem is that minorities are being locked out of government and city planning, which then saps the area of the ethnic neighbourhoods that give structure to Chicago, New York and San Francisco. Phoenix's Native-American art shops and taco restaurants offer pockets of variety, but generic food chains such as International House of Pancakes and Pizza Hut still dominate. The property market is white-dominated too, Ms Koptiuch says, with its suburbs policed by homeowners' associations which insist on a certain uniformity of style. Latinos make up one-third of Phoenix's population, but from the outside appearance of the place you wouldn't know it.

Scott Decker, director of the School of Criminology and Criminal Justice at ASU, cites methamphetamines smuggled in from Mexico as a prime cause of rising crime. But the larger problem is that rapid urban growth has overwhelmed existing prisons, courts, defence lawyers and police. Phoenix's newcomers are largely “snowbirds” (people avoiding the cold weather up north), sports fans and Californians; their frequent absences and lack of knowledge of their own area make their properties easy prey. “Policing Phoenix has become very hard,” Mr Decker notes.

Locals also moan that Phoenicians are becoming more antisocial. Patricia Gober, the author of a book called “Metropolitan Phoenix: Place Making and Community Building in the Desert”, says this is because everyone has come from somewhere else. Without a shared history, she says, people feel no sense of place. Throw in scorching summers and a lack of public spaces, and the environment becomes antagonistic.

City planners are aware of all this and are trying to help. They promise the light-rail construction work will end soon (which should please Mr Zistatsis), are campaigning against meth, and are planning ten new schools for international study. But Phoenix's growing pains seem unlikely to end any time soon.

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Dogfighting

Cruel and inhuman

Jul 26th 2007 | WASHINGTON, DC
From The Economist print edition

America is outraged over recent allegations

IN APRIL federal authorities searched a Virginia property owned by an American football star, Michael Vick. They suspected that it was used for dogfighting, and they seem to have been right. They found dozens of American Staffordshire Bull Terriers, commonly called pit bulls. There were piles of bloody carpets, and tools of the trade including a “rape stand”, used to strap down an unwilling dog so she can be forcibly mated.

Last week Mr Vick and three friends were indicted. Court documents allege that the men operated as Bad Newz Kennels. They allegedly transported dogs across state lines, fought them against one another and gambled on the outcomes. They, again allegedly, executed some losers by electrocution and by crushing.

The outcry was swift. Protesters gathered outside the National Football League's New York headquarters. John Kerry, a senator from Massachusetts, called for Mr Vick's suspension. Mr Vick's team, the Atlanta Falcons, asked him to stay away from training camp. Nike announced that it would hold off on releasing the Zoom Vick V, its fifth shoe named after the player.

But the fiercest response came from the Senate's longest-serving member, Robert Byrd of West Virginia. “Shame! Shame! Shame!” he shouted at the Senate podium. His voice shook and his hands trembled. “The training of these poor creatures to turn themselves into fighting machines is simply barbaric. Barbaric! Barbaric! Barbaric!” Some may be sceptical of Mr Byrd's moral credentials (when he was a young man he served as Exalted Cyclops for the local chapter of the Ku Klux Klan); but dogfighting is almost universally reviled, and rightly so. The dogs that participate suffer grievously, and a fight often leaves one or both critically harmed.

It is hard to assess dogfighting's prevalence. Its practitioners have to operate in secrecy. Dogfighting is illegal in every state and a felony in most. (Cockfighting, however, is still legal in Louisiana.) In May George Bush signed a law making it a felony to transport animals between states for fighting purposes. This might be bad news for Mr Vick, but it is good for almost everyone else. Americans love dogs. Those few that mistreat them so cruelly deserve hard penalties.

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Lexington

Dick Cheney reveals his secrets

Jul 26th 2007
From The Economist print edition

Kevin Kallaugher

Not really. But a new biography gives as intimate a glimpse of the vice-president as Americans are likely to get

Get article background

BEFORE the first American war against Saddam Hussein, when Dick Cheney was secretary of defence, he had to brief King Hassan of Morocco about the brewing Operation Desert Storm. As the meeting was about to start, the king placed a small silver box in his translator's hand and briefly spoke with him in Arabic. Mr Cheney asked what the ritual meant. The king replied that the box contained a fragment of the Koran and he was swearing his translator to secrecy on pain of death. Mr Cheney says he thought: "Damn, I need one of those."

The vice-president is famously fond of secrecy. He stores his papers in man-sized safes and labels even unclassified memos "Treated As: Top Secret", a designation his office appears to have invented, according to a recent *Washington Post* series for which Mr Cheney refused to be interviewed. Even with friendly journalists, such as Stephen Hayes of the *Weekly Standard*, he is clam-like. Mr Hayes spent nearly 30 hours in one-on-one interviews with Mr Cheney for his new book, "Cheney: the Untold Story of America's Most Powerful and Controversial Vice-President", yet many of his queries were rebuffed. Mr Hayes asked: "Can you briefly describe what kinds of qualities you are looking for [in a new CIA director]?" Mr Cheney replied: "Probably not." "I waited for him to continue," writes Mr Hayes, "but he said nothing."

Despite the difficulty of prising information out of its subject, the book is worth a read. It breezes through Mr Cheney's early life. He grew up in a Wyoming town so remote that he sometimes travelled nearly 400 miles (640km) to play high-school football. He rode a bicycle drunkenly down the stairs at Yale, and was kicked out for poor grades. He found himself, in his early 20s, alone in a cell after his second arrest for drunk driving, wondering what to do with his life. Then, after a brief academic career, he moved to Washington, DC, and found that he was really good at bureaucratic infighting. By his mid-30s he was chief of staff to President Gerald Ford. Few men have risen so high with so much anonymity, noted the *New York Times*. Revealingly, he refused to accept the cabinet status that had previously come with the job. His Secret Service codename was Backseat.

By the time George Bush junior came to pick him as his running mate, Mr Cheney had been the Republican whip in the House of Representatives, secretary of defence under Mr Bush's father and CEO of

a large oil-services firm, Halliburton. His gravitas and long experience inside the Beltway neatly complemented Mr Bush's shortcomings in both areas. It was only two days after the Supreme Court declared that Mr Bush had won the election of 2000 that late-night comedians started joking that the vice-president would be his nominal boss's boss. This remains a popular view. The *Guardian*, a British newspaper, wrote this week that there is a growing consensus in America that it is Mr Cheney who calls the shots in the White House.

Yet it is an exaggeration. As the *Post* put it, Mr "Cheney is not, by nearly every inside account, the shadow president of popular lore." (He did, though, take charge for two hours on July 21st when Mr Bush was sedated for a colonoscopy.) Where the two disagree, Mr Bush's views prevail, as they have on issues from gay marriage (Mr Cheney opposed Mr Bush's support for a constitutional amendment banning it) to sacking Donald Rumsfeld (Mr Cheney wanted his old mentor kept on at the Pentagon).

Working the levers

What makes Mr Cheney so powerful is that Mr Bush usually heeds his advice. Unlike most vice-presidents, he has no further political ambitions, so Mr Bush trusts him to say what he thinks, not what will appeal to future voters. Unlike his boss, Mr Cheney has a love of detail and a deep understanding of how the levers of power work, so he is adept, as the *Post* puts it, at serving up Mr Bush's menu of choices. Some critics think there is something inherently sinister about a vice-president wielding such influence. It is certainly unusual: countless former veeps have complained of the utter uselessness and frivolity of the position, or that it is not worth a bucket of warm spit (a remark ascribed to John Garner, Franklin Roosevelt's first vice-president.) But there is no obvious reason why it is worse for a president to take advice from his deputy than, for example, from his wife.

The real beef with Mr Cheney is that so much of his advice has turned out badly. Toppling the Iraqi regime with only a vague plan as to what to put in its place has been the defining foul-up of the presidency. To Mr Hayes, Mr Cheney admits that it was a mistake to install a proconsul rather than putting Iraqis in charge of their own country from the very outset. But he makes no such concession about holding terrorist suspects in legal limbo at Guantánamo Bay or sanctioning torture to extract potentially life-saving information. Such things repel even America's allies, and Mr Cheney's quiet hand in them helps explain why his approval rating is even lower than Mr Bush's.

To some, the vice-president has become a caricature: a cartoon recently depicted him showing the Devil how to wield his pitchfork. More seriously, the Democrats' most-cited reason for not impeaching Mr Bush (as anti-war protesters on Capitol Hill this week were demanding) is that Mr Cheney would then become president. Mr Cheney, though, appears to care little about his critics. "Don't you think your book will have to be a hatchet job in order to have any credibility?" he asked Mr Hayes. What worries him much more is that Americans do not understand that "the alternative [to fighting in Iraq] is not peace." The war on terror, he says, will go on "for decades", and "the terrorists are betting that they can run out the clock on the Bush-Cheney administration and that it will be easier for them in the future." A precipitate withdrawal might make that true, but Mr Cheney deserves his share of the blame for the state of Iraq today.

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Peru

That elusive feel-good factor

Jul 26th 2007 | LIMA
From The Economist print edition

EPA

Alan García may be a reformed character, but Peruvians are not giving him much credit for that

THE economy is growing at close to 8% a year while inflation is running at under 2%, making for the best overall performance since the 1960s. As he marks the first year of his second term as Peru's president on July 28th, Alan García might reasonably expect to be basking in public acclaim, especially since he has resisted the populist adventurism that marked his first term in the 1980s.

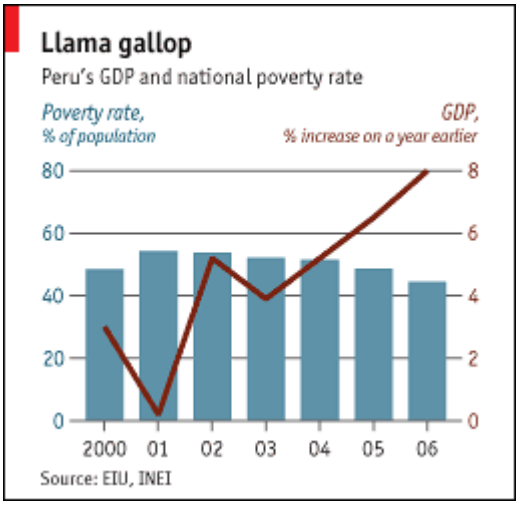
Yet it is not so. Several parts of the country came to a standstill this month, with demonstrations against economic policies, protests by teachers and complaints about life in general. In Apurímac, in the impoverished and mainly Indian southern Andes, thousands of demonstrators used slingshots to hurl stones at police. Thousands more from Ayacucho, another Andean city, marched on Lima, the capital. Elsewhere in the south, protesters took over railway stations, blocked highways and tried to ransack airports. Three were killed before the government yielded to some of their demands.

A poll by Ipsos Apoyo this month found that only 32% of respondents approved of Mr García, down from 63% last August. That makes him one of the least popular presidents in Latin America. What makes this odder is that the benefits of Peru's economic boom are starting to be more widely felt.

The government's statistics agency says that poverty fell by more than four percentage points last year (see chart). In Lima and other coastal areas it fell even more sharply. The problem is that other parts of the country are still missing out. In Apurímac and Ayacucho, poverty rates actually increased by some ten percentage points compared with 2004. In the Apoyo poll, 47% of respondents thought that poverty had worsened over the past year.

When campaigning last year Mr García disparaged a conservative rival as “the candidate of the rich”. His opponents now lob the same charge at him. He has backtracked on some of his campaign promises. Having equivocated on a free-trade agreement with the United States, he now supports it (though there is little sign that the Democrats who control the American Congress will ratify it). He has reneged on a promise to change the labour laws to eliminate widespread subcontracting under which workers have few rights.

This change of heart has reassured business. But it has left the government vulnerable to a demagogic opposition loosely associated with Ollanta Humala, a nationalist former army officer whom Mr García defeated in the election. Some government officials see the hand (or at least the money) of Hugo Chávez, Venezuela's leftist president, who supported Mr Humala last year, in the recent protests.



The government accepts that more needs to be done to spread the benefits of growth. It is transferring around $3.5 billion to local governments this year, for investment in infrastructure, health care and education. Social programmes have been consolidated and streamlined under an umbrella plan to tackle child poverty and malnutrition in the poorest regions. Other programmes are aimed at helping Andean farmers and at safe drinking-water schemes. Officials hope to reduce the overall poverty rate by a further ten percentage points over the remaining four years of Mr García's term.

The problem is that even if such projects are well-executed their effect will be felt only in the medium term. Some Peruvians worry that the street protests will panic Mr García, whose political touch is sometimes erratic, into reviving his latent taste for popular short-term measures that end up doing harm. So far he has been at pains to avoid the mistakes of his previous term, when Peru suffered hyperinflation and economic collapse.

Less clear is what he now stands for. Provided that the economy continues to grow and the president holds his nerve, the protests should start to ebb. Mr García could yet go down in history for having made serious inroads into the poverty of the southern Andes. But the slingshots are not about to be put away just yet.

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Brazil

Extinct, or just adapting?

Jul 26th 2007 | SÃO PAULO
From The Economist print edition

The death of a political boss, but not necessarily of the breed

Get article background

THE most powerful men in Brazilian politics tend to go by nicknames or initials. The president, Luiz Inácio Lula da Silva, is invariably called simply Lula. One of the great acronyms was Antonio Carlos Magalhães, or ACM, a senator who dominated the political life of the large north-eastern state of Bahia for half a century. To some Brazilians, his death on July 20th at 79 marks the end of an era—that of *coronelismo*, the rule of the old-fashioned political bosses known as "colonels".

Mr Magalhães was no military man. The term comes from the habit of 19th-century landowner-politicians of buying command of the national-guard unit in their locality. Muddling private with public interest, the colonels were particularly prevalent in the poor north and north-east, where they often controlled access to education and government jobs.

In some ways Mr Magalhães, the "emperor of Bahia", was one of the last of the breed. Three times governor of the state, he strengthened his power base by allying with whomever was in power in Brasília. He supported the military regime of 1964-85. He backed democracy at the last minute, befriending most subsequent presidents. He served as minister for communications in the 1980s while owning the most important television station in Bahia.

But he also presided over Bahia's industrial modernisation, persuading petrochemical firms and Ford to set up plants there, often with government help. In his lifetime, Salvador, the state capital of which he was once mayor, displaced Recife as the most important city in the north-east. He was genuinely adored by many *baianos*. But he was often dictatorial in manner and could be vengeful.

Even before his death, his grip had begun to loosen. The premature death of his son, tipped as a future president, thwarted his dynastic hopes. He could no longer deliver Bahia's vote to whomever he chose. In the 2002 presidential election his favoured candidate, Ciro Gomes, came third in the state. Last year Mr Magalhães's party finally lost the state's governorship, to Lula's Workers' Party (PT).

Other traditional bosses are in decline, too. José Sarney, a former president, has run the state of Maranhão and its smaller neighbour, Amapá, for decades. But despite backing Lula, he only scraped back as a senator last year. His daughter Roseana, also once touted as a future president, lost the election for governor of Maranhão.

Several trends explain the weakening of the colonels. Brazilians are better educated and informed than ever before. Social programmes, such as *Bolsa Família*, a federal scheme that gives cash payments to the poorest, have made voters less dependent on the favours of the local political boss, while also increasing support for the PT in the north-east.

But Brazil is not yet free of the influence of African-style "big men". In the more backward parts of the country, personality and patronage can still trump ideology and organisation. The party system is weak, with 21 different parties represented in Congress. Legislators regularly switch between them. In a large country, where each state is a single electoral constituency, name recognition is crucial.

Marco Antonio Villa, a social scientist at the Federal University of São Carlos, sees a new type of colonel in people like Mr Gomes, a slick soft-left operator who is likely to run for president again in 2010. Mr Gomes has been governor of Ceará, also in the north-east, a minister under two different presidents, and is now a congressman. His wife is a senator and his brother is the current governor of Ceará.

A political-reform bill is wending its way through Congress, but few expect it to produce radical change.

Nevertheless, Brazilian politics are far more competitive than they were. The likes of Mr Gomes will never dominate their states in the manner of Mr Magalhães in Bahia. Evolution, not revolution, is slowly wiping out the Brazilian political boss.

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Bolivia

A fight to be capital

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Reuters

Sucre and La Paz slug it out. More's the pity

FOR three centuries under several different names, the pleasant, whitewashed town of Sucre was the capital of what is today Bolivia. Hit by the decline of the nearby silver mine at Potosí, in 1898 it lost its political pre-eminence to La Paz, some 400 kilometres (250 miles) to the north. But Sucre, a quiet place of many lawyers' offices, remains the seat of the judiciary, an ancient university and the Catholic church. Now its people scent a chance to recover its lost status.

That chance comes from the fact that for the past year a Constituent Assembly, charged with drawing up a new constitution, has sat in the town. Evo Morales, Bolivia's president, wants the assembly to “refound” the country, giving more power to Andean Indian groups and to the state. But his Movement to Socialism is divided, and many of his proposals arouse fierce opposition in business-minded eastern Bolivia. The assembly is unlikely to finish its work by its deadline of August 6th.

That is good news for Sucre, which has profited from the sojourns of assembly members and their attendant court of lobbyists and demonstrators. The town wants to make this trade permanent, by switching the political capital back to Sucre from La Paz. The opposition backs this demand.

Sited in a volcanic crater 3,600 metres (11,800 feet) above sea level, La Paz is a breathlessly impractical capital. Its links to the rest of the country all pass through its twin city of El Alto, a stronghold of Mr Morales. Twice in two years protesters in El Alto blockaded access to the capital, causing governments to fall, paving the way for Mr Morales's election in December 2005. And installing the capital in Sucre would help the surrounding dirt-poor Potosí region.

Mr Morales opposes the move, as an unnecessary diversion from the assembly's business. Not surprisingly, La Paz is having none of it. On July 20th hundreds of thousands of people took to the streets of El Alto to oppose the move (see picture). They will surely prevail. But perhaps the saddest side to this debate is that both cities, rightly, see government as the route to prosperity. Mr Morales boasted recently that the state now controls 20% of the economy (excluding the government itself), up from 6% when he took office. Whether that will make Bolivians richer remains to be seen.

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Toronto

Nice but broke

Jul 26th 2007 | TORONTO
From The Economist print edition

Canada's aspiring city state

THE mayor of Toronto, David Miller, has ambitions to turn Canada's largest metropolitan area into a city state. Earlier this year he persuaded Ontario's government to grant Toronto more powers to raise money and govern itself than other cities. But his first attempt to use those powers has backfired. This month city councillors refused to approve new taxes on home sales and vehicle registration. The catcalls of estate agents, who crowded the council chamber on the morning of the vote, clearly rang louder in some councillors' ears than the mayor's urgings.

This comes at a delicate time for Toronto, a city of 2.5m. It is lauded for its cosmopolitan feel and quality of life. But it also suffers from budget problems and creaking infrastructure just when—for the first time in a century—its status as Canada's pre-eminent city is being challenged. The contender is Calgary, in Alberta, the western base of the country's booming energy industry. Though its population is only 1m, it is growing fast. Calgary is building new schools, hospitals and roads and luring corporate head offices.

In contrast, Toronto's economy is under pressure. Its manufacturing industry shed 100,000 jobs in the past five years, because of a strong currency and competition from China. Not all the news is grim. The Toronto area still attracts two of every five immigrants to Canada. Private wealth is pouring into new museums, theatres and art galleries. And Toronto is still Canada's financial centre. Yet few would now describe it as “New York run by the Swiss”, as did Peter Ustinov, a British actor and writer, in a double-edged quip in 1987.

Toronto's prospects turn in part on sorting out its finances. It faces a deficit of about C$575m ($550m) this year on current spending of C$7.8 billion. The problems date from the 1990s, when the federal government eliminated its own deficit partly by cutting funding to provinces. Ontario responded by passing responsibility for social housing, welfare and other social programmes to the cities, which struggled to pay for them out of property taxes.

Mr Miller wants the province to give him more money while taking back some social programmes. He promises to try again to get the tax increases approved in October. Defeat then would mean cuts in spending on public transport and policing, he warns. Toronto has also formed a common front with other cities to push the federal government to hand over one of every six cents raised by the federal sales tax (which Mr Miller reckons would give his city an extra C$410m). “One Cent NOW!” clamour large green signs across the city.

The city's case for even more autonomy would, however, be boosted if Mr Miller made more effective use of the powers he already has. Road tolls or a congestion charge stand a better chance of winning approval than his current tax proposals, reckons Tom Courchene, an economist at Queen's University. They would reduce pollution and congestion, and scoop up money from out-of-city commuters.

As well as money, Toronto lacks some of the animal spirits that are making Calgary roar. While the estate agents rule in Toronto, Albertans are more ambitious. Just as Montreal was once Canada's financial centre before Toronto took over, so the banks could move further west to Calgary, says Joe Martin, a business historian. Splendid to be a city state. But even Venice ended up as a backwater.

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Ecuador

Caught on camera

Jul 26th 2007 | QUITO
From The Economist print edition

A setback for Rafael Correa

Get article background

IN HIS first six months in office, Rafael Correa, Ecuador's young socialist president, has repeatedly claimed that he represents a break from the sleazy, self-serving politics of his country's recent past. Instead of a suit and tie, he wears collarless shirts embroidered with Andean Indian designs. Now his government has suffered a rather old-fashioned scandal.

In his campaign Mr Correa promised to divert money from debt payments to social programmes. In February the finance minister, Ricardo Patiño, said he might delay a $135m interest payment—only to make it promptly. This led to wild swings in the value of Ecuador's bonds and of derivatives linked to them, and raised suspicions of deliberate market manipulation. Three months later a video surfaced of a meeting between Mr Patiño and three others shortly before the payment was due. In it, the minister appeared to discuss a plan that would enable certain investors to gain up to $200m and the government $50m.

A former finance minister who also appears in the video later claimed that Venezuela's government, which sympathises with Mr Correa, held $2.5 billion in Ecuadorean paper, and stood to gain from the payment. But it is not clear how big an investment Venezuela has in Ecuador: its only public purchase of bonds was of $25m in 2005.

Mr Patiño said the tape was doctored, and denied any wrongdoing. But this month Congress censured the minister. A second video had shown Mr Patiño seemingly arranging a backroom deal with the head of Congress, just as in the old days.

Mr Correa and many Ecuadoreans hold Congress in contempt. He hopes to replace it with a constituent assembly to be elected on September 30th. But first he decided to replace Mr Patiño, shunting him to a new ministry to deal with the coastal region, where the opposition to Mr Correa is strong. The new finance minister, Fausto Ortiz, is regarded as a political moderate.

Mr Correa has set up a committee to review all debt contracted by Ecuador's governments since 1976. He claims that some of this is “illegitimate”. The problem the committee will face is that most of the debt was contracted by elected governments no less legitimate than that of Mr Correa. And if the videos, unlike Ecuador's bonds, are to be taken at face value, it will be hard for the current administration to pass judgment on their morals.

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Urbanisation in China

China's Chicago

Jul 26th 2007 | CHONGQING
From The Economist print edition

Imaginechina

A giant city in the south-west is a microcosm of China's struggle to move millions from rural to urban areas

Get article background

DEEP in the heart of China, the hilly riverside city of Chongqing is burning with ambition and wreathed in a shroud of smog. Visitors are astonished by the scale and pace of its growth: shopping malls, expressways and a throng of skyscrapers, including one that looks like the Chrysler building. Work on a $200m opera house is under way. But Chongqing's megacity dreams are troubled.

In China's sometimes confusing administrative nomenclature, Chongqing is called a municipality, one of only four that enjoy provincial-level status (the others are Beijing, Shanghai and Tianjin). It is a region as well as a city. The municipality covers an area the size of Scotland (much of it just as rugged), and its population is scattered over thousands of towns and villages straddling the Yangzi river. According to official figures, about 45% of Chongqing's people live in urban areas (nearly half in the would-be-Manhattan of Chongqing proper). But Chongqing's leaders, determined to make their vast municipality an oasis of modernity in China's backward west, say that by 2020 the municipality must be 70% “urbanised”.

Statistics like these make China's property developers drool. The municipality's official population is more than 30m, which if it were a single city would make it one of the largest in the world. To achieve the 2020 target, country-dwellers must move into urban areas at a rate of more than 500,000 a year. Large numbers of farmers will also seek their fortunes in other parts of China. Thanks to the lure of the wealthy coast, many have already done so. Chongqing's resident population—official population minus migrants to other provinces—fell by 500,000 between 2000 and 2005. But around half of those who migrate to urban areas remain in Chongqing municipality.

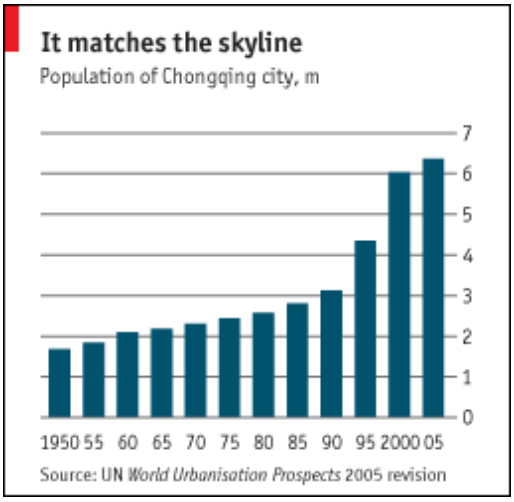
Comparisons are often made with Chicago. As James Kynge says in a recent book, Chicago was “a gateway to vast and largely undeveloped lands to its west, a hub where the traffic of roads, rail lines and waterways converged, and a centre for business where ambition eviscerated risk”. Chongqing “is all of these things”.

Huang Qifan, the municipality's deputy mayor, likes to measure his city against America's urban powerhouses. He points to carmaking Detroit. Chongqing, he says, is China's third- or fourth-biggest car manufacturing centre, with an expected output of 1m vehicles this year, up 25% from 2006. Like the rest of China, Chongqing is booming. In the first six months of this year its economy grew by more than 14%, compared with 11.5% during that period for the country as a whole. In a decade, it could be as wealthy as

Shanghai now.

Chongqing has been helped by massive central-government support since the late 1990s, aimed at reducing the imbalance between the prosperous coast and more sluggish interior. Money has poured in for the construction of the Three Gorges Dam, downriver in neighbouring Hubei Province, and the relocation of hundreds of thousands of people displaced by the reservoir that stretches up to Chongqing city itself. Mr Huang says 80% of the municipality's growth in the past decade has come from investment (half financed by state-owned banks and the government). In the next ten years he wants to halve investment's contribution to growth and triple that of consumption and exports. Chongqing in his plan is to be an inland Shanghai.

All this money is bringing rural job-seekers flocking into Chongqing (the city proper, see chart). Many, known as stick men, loiter on the streets carrying bamboo poles used for lugging loads up the hilly streets (so steep that pedal-driven vehicles are hardly to be seen). The city is one of the magnets for the huge shift of people from the countryside that is transforming China. Yet, as Chongqing also shows, maintaining this flow of people is becoming increasingly tricky.



To see why, go the village of Qilin, a lush expanse of paddy fields, bamboo and maize about 60km (38 miles) north-east of Chongqing city. A billboard at the village headquarters says the population is 4,300. Nearly 2,000 of them have gone to work elsewhere. Those left behind are mostly school-age children and the middle-aged and elderly, who would have little chance of finding jobs in urban areas. Labour-intensive industries prefer people in their late teens and early 20s, but they have gone.

Of those who have moved to Chongqing city, very few have registered as urban residents with all the perks that this theoretically entails: unemployment benefits and pensions as well as subsidised health care, education and (for the poorest) housing. Most migrants prefer to maintain their official status as farmers, because this gives them usage rights to small parcels of farmland: a more tangible benefit than the welfare promises which many rightly suspect will not be fulfilled. Much of China's migration to the cities is therefore temporary—many city dwellers will one day return to their farms—and some scholars reckon Chongqing's real urbanisation rate is far lower than the official figures suggest.

Municipal officials are excited by the central government's decision in June to allow the municipality to act as a pilot for wide-ranging reforms. These, they hope, will hasten real urbanisation. Details have yet to be announced, but they are expected to involve changes to rural land management, social security and a household-registration system that rigidly classifies all citizens as either urban or rural.

Qilin village has made an early start. China's official media have made much of its decision to allow farmers to swap land for shares in a new orange-growing business set up by the entrepreneurial village chief. Farmers are free to sell their shares to other villagers or, with the approval of half the shareholders, to anyone else. It is still a far cry from land privatisation, which some Chinese say is essential to make

permanent the shift of rural residents to cities. Rights to use the land still revert to the original farmer at the end of the 30-year lease to which all farmland is subject. But Zeng Guoping of Chongqing University says local officials hope the central government will allow Chongqing to let the leases run much longer.

Meanwhile, officials play with numbers. The Chongqing leadership's obsession with urbanisation targets encourages their underlings to fiddle the figures. The official media have said that efforts to reform the rural/urban citizenship system, known as *hukou*, could encourage officials simply to reclassify farmers as city residents. Urbanisation targets, some critics say, smack of Maoist economics. “The market should decide,” says Cui Chuanyi, a rural-labour specialist at a government think-tank in Beijing. To Chongqing's ambitious leaders, that sounds too simple.

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Pakistan

Chaudhry chuffed

Jul 26th 2007 | LAHORE
From The Economist print edition

The Supreme Court deals a blow to General Musharraf

AFP

The lawyers savour the fruits of victory

Get article background

PAKISTAN'S ubiquitous intelligence agencies got it wrong. They had assured General Pervez Musharraf, the country's president, that the Supreme Court would uphold his removal in March of the country's chief justice, Iftikhar Chaudhry, on charges of corruption and misconduct. But the court unanimously struck down the president's action on July 20th and restored Mr Chaudhry to his former glory. As lawyers and pro-democracy activists erupted with joy, the government puzzled over what to do next.

Many Pakistanis say this is a milestone in the struggle for an independent judiciary. During the trial, which lasted four months, Mr Chaudhry led caravans of rapturous supporters around the country and addressed huge crowds on the need for judges to be free of political pressure. On May 12th the government tried to stop him speaking in Karachi. In the clashes that followed 42 people were killed, most of them Chaudhry supporters. That provoked an anti-Musharraf backlash, and increased pressure on the Supreme Court to rule against the president. Mr Chaudhry's principal lawyer, Aitzaz Ahsan, constantly exhorted the judges to protect and support their “chief”.

General Musharraf has been severely weakened. “Go-Musharraf-go” slogans have become common at pro-democracy gatherings. Some in the ruling Pakistan Muslim League want a purge of the party; others say General Musharraf should impose a state of emergency, or even martial law, to stave off impending defeat at the general election due later this year. Worsening violence by Islamist militants along the northern border with Afghanistan might be cited to justify such an action. After all, America says al-Qaeda has reorganised itself there. Yet General Musharraf says he accepts the Supreme Court's judgment and that elections will be held on time. That may be easier said than done.

A court flush from victory against the president and led by a judge with a grudge against him is likely to thwart General Musharraf at every turn. The president wants to set up a caretaker government, tilted in his favour, to supervise the coming election. He wants the sitting parliament, in which he has a majority, to elect him president for another five years before he dissolves it. And he wants to retain his powers as army chief, despite constitutional obstacles. The opposition will challenge him on all three counts and the Supreme Court will be the final arbiter. So what are his options?

He could play fair, see his party lose and hope to exit gracefully. Alternatively he could impose martial law, cancel elections, shut down the Supreme Court and hope to weather the storm of protest at home and abroad. Or he could reach out to the one popular politician willing to bail him out if he is ready to share power: Benazir Bhutto. Ms Bhutto, twice elected as prime minister and twice deposed, faces

corruption charges and is in exile. But she has said she would be willing to support General Musharraf as president for the next five years if he lets her stand at the next election, which she expects to win.

There has been much talk of a deal between the two. The Bush administration, which says it is concerned about Pakistan's democracy as well as al-Qaeda, might try to broker it. But nothing has been agreed. After the court's decision, General Musharraf's hand has become weaker and Ms Bhutto's demands are likely to increase. Time is running out for the general.

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Tribal conflict in Afghanistan

Fighting for land and water

Jul 26th 2007 | BEHSOOD DISTRICT
From The Economist print edition

Modern politics meets ancient grievances

Get article background

SURROUNDED by mountains and carpeted with wild flowers and spent Kalashnikov cartridges, the village of Shah-e-Nehru, like dozens of others nearby, lies deserted. More than 4,000 Hazaras, a Shia Muslim ethnic minority that is concentrated in Afghanistan's central highlands, are thought to have been displaced from Behsood district, part of Wardak province, in the past two months. Their oppressors are bands of armed Kuchi nomads. The Kuchis, who are Sunni Muslim and ethnic Pushtun, probably number fewer than 200 fighting men together with their families and livestock. But 65 Hazara villages have been emptied, according to Western officials, and around a dozen people killed.

This reporter's visit to Shah-e-Nehru, with Hazara tribal elders and a few local police, ended in headlong flight under a volley of rocket-propelled grenades and sustained gunfire from mountains held by the Kuchis. Both groups are poor and marginalised, and have been for centuries. Both claim the moral high ground.

The Hazaras say they are facing predatory nomads, allied with the Taliban, who want to exploit inter-ethnic and sectarian tensions. Kuchi leaders contend that they are forcibly excluded from pasturelands they have used for a hundred years by Hazaras who are eager to create an Iranian backed Shia mini-state in the central highlands. The Hazaras, it seems fairly clear, have more claim to sympathy.

The Afghan government's response to the incursion of the Kuchis has been almost non-existent. The police have around 40 people in Behsood, the same as before the Kuchis came. The Turkish Army Provincial Reconstruction Team, a part of the international aid operation to Afghanistan with theoretical jurisdiction over Wardak, has not sent any of its forces there. The journey would mean crossing various Taliban-influenced districts that lie along the route. A delegation of government officials, which has flown in five times by helicopter to mediate, has been dismissed by both sides as useless. Besides, Afghan officials now report that the Kuchis have begun to leave anyway, on the next leg of their annual migration.

The violence is underpinned by competition for natural resources. The problem is not new, but is getting worse in many parts of the country. And it is exacerbated by the return of millions of war refugees and by decades of upheaval that have left land tenure in chaos.

The principal long-term victims of this struggle are the Kuchis. Their annual migrations face ever greater competition from the expansion of settled communities. Hazarajat, the Hazara-dominated central region (with Behsood district at its eastern extreme), is an area poor in resources with too many people.

“The Hazaras have now bought a lot of sheep and goats. It is a new phenomenon,” complains Haji Naim Kuchi, the main Kuchi leader in Kabul. But Hazara farmers in Behsood say that the Kuchis' own animals are stripping grasses that the locals need to cut and dry to keep their sheep and goats alive during harsh highland winters.

The government plans to establish a dozen “Kuchi cities” in the next five years. If the project ever comes to fruition, which seems unlikely, many Kuchis will probably settle down willingly. They have nothing to lose. And if Afghanistan's desperately degraded agricultural systems, particularly its use of water, were ever to be modernised, the violent tussle for resources might end anyway. A UN environmental assessment of the country estimates that productivity could be doubled on the land currently farmed, while another 10% of Afghanistan (approximately 62,000 square kilometres, or 24,000 square miles) could be brought under the plough through irrigation.

Afghanistan's vast mountain ranges capture enough rain water, but farmers manage to harness only 12-15% of it. The rest flows into the southern desert or neighbouring countries. The government has identified more than 520 potential sites for small and medium-sized dams, which could provide irrigation and hydroelectricity. Such a prospect is alarming Afghanistan's neighbours; they have water shortages of their own to worry about, without losing the Afghan surplus.

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Indian politics

The Gandhis' girl

Jul 26th 2007 | DELHI
From The Economist print edition

The election of India's president is a modest boost to the government

Get article background

AP

Victor, not consensus-builder

NOT even women's-rights activists celebrated loudly on July 25th when Pratibha Patil was sworn in as India's first female president. Her election—by a two-thirds majority of a college of national and state assembly members—was unusually fractious. India's head of state, a largely ceremonial post, tends to be the consensus choice of the main political parties. But Mrs Patil was nominated by the government, a coalition dominated by the Congress party, and opposed by the main opposition Bharatiya Janata Party (BJP).

The BJP considered Mrs Patil, 72, a stooge of the Gandhi family, Congress's hereditary chiefs. Worse, in the run-up to the election, the former Congress politician was implicated in rather a lot of scandals. It is alleged, for example, that she used her influence to help a brother evade investigation over a political murder. On the campaign trail—when not being photographed girlishly hand-in-hand with Sonia Gandhi, the leader of Congress—Mrs Patil did herself no favours. She told a gathering of Muslim women that their habit of wearing the veil was an Indian custom, adopted in the 16th century as a defence against Muslim invaders. She later retracted the comment.

At least at first, Mrs Patil is likely to suffer by comparison with her predecessor, Abdul Kalam. Mr Kalam, a former government scientist with a foppish fringe, was unusually popular, mainly because he was not a politician. Mrs Patil could never claim that, though her probable loyalty to her Congress sponsors is unlikely to matter much until after the next election, due by May 2009. If, as is likely, the vote produces a hung parliament, Mrs Patil would have to decide which party should have first dibs at forming a government. In an even contest with the BJP, it would be remarkable if Congress did not receive a call.

That Mrs Gandhi felt obliged to propose such a partisan candidate suggested a certain lack of confidence in her party's prospects. After all, she had already seen three other possible candidates vetoed by Congress's coalition and parliamentary allies. Mrs Patil's thumping victory was therefore a welcome boost for the government. Indeed, all things considered, she won support from a surprising number of the opposition. Shiv Sena, a Hindu extremist outfit and staunch BJP ally, backed Mrs Patil because both hail from Maharashtra. A so-called “third front” of regional and caste-based parties may splinter after some of its members backed Mrs Patil.

There may be more suffering ahead for Congress's opponents. This week five members of Gujarat's BJP government were expelled from the party for having voted for Mrs Patil. With an election due later this year in Gujarat—an important state for the BJP—the party urgently needs to quell such dissent. Yet it is in poor shape, riven by two feuding leaders, Rajnath Singh and L.K. Advani, and a crisis over the party's bigoted ideology.

The government feels emboldened. Some pundits have dared to suggest it may even try launching a few reforms. It almost certainly will not. The few liberal measures the ruling coalition has attempted have mostly been compromised or scuppered by populist opposition, especially from the Communist parties who support it in Parliament. A row over the government's attempts to acquire land forcibly for industrial use, for example, typifies the ambivalence many Indians feel towards economic development. As the general election looms, and while economic growth, predicted at over 8% this year, remains strong, the government will not risk provoking needless opposition.

On July 20th, meanwhile, Indian and American diplomats concluded the details of another putative scheme the Communists oppose: a nuclear co-operation agreement between the two countries, which would provide India with nuclear fuel in exchange for restrictions on its nuclear-weapons programme. The draft agreement is expected to be debated in India's Parliament next month. It is likely to be a much tougher sell than Mrs Patil.

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China's corpse brides

Wet goods and dry goods

Jul 26th 2007 | RENSHOU, HEBEI PROVINCE
From The Economist print edition

A lucrative, grisly market for grave robbers and murderers

A MEMBER of the Chao clan of Gelao village in Shaanxi province was paying her respects recently to a newly buried female relative. She noticed a wheat stalk stuck in the mound of earth with a ribbon tied to it. Alarmed, she alerted her relatives. At 11 o'clock that evening, they ambushed two grave robbers who were starting to dig up the body. A member of the Chao family told a friend from the Wang clan in a nearby village, who had just buried one of its womenfolk. Clan members found nothing suspicious at the grave but the next day came across a large plastic bag in a ditch. Sure enough, it contained the body of their relative, exhumed and waiting for collection.

Parts of rural China are seeing a burgeoning market for female corpses, the result of the reappearance of a strange custom called “ghost marriages”. Chinese tradition demands that husbands and wives always share a grave. Sometimes, when a man died unmarried, his parents would procure the body of a woman, hold a “wedding” and bury the couple together.

The custom has a long history. In the legends of the classical romance of the “Three Kingdoms”, the warlord Cao Cao finds a corpse bride for his son who died in 208 AD at the tender age of 13.

The communists discouraged burials and suppressed ghost marriages as “feudal superstition”. Yet ancient beliefs die hard. As Marxism wanes, burials are reappearing—and so are corpse brides.

The practice is most common in the northern provinces of Shanxi, Hebei and Shandong. This is China's coal-mining heartland. In mountainous Shanxi, pit accidents kill many men too young to marry. Compensation to the family is spent on giving their son a wife in the afterlife.

A black market has sprung up to supply corpse brides. Marriage brokers—usually respectable folk who find brides for village men—account for most of the middlemen. At the bottom of the supply chain come hospital mortuaries, funeral parlours, body snatchers—and now murderers.

On March 7th this year, a local newspaper, *Huashang Bao*, reported that demand for corpse brides had led to sustained inflation. A top-quality piece of “wet” (recently deceased) merchandise that the newspaper said would have sold for a few thousand yuan four years ago now goes for 30,000-40,000 yuan ($4,000-5,300). In contrast, “dry goods” (long buried) fetch just 300-500 yuan down the Shanxi coal mines.

Such incentives prompted Song Tiantang to kill. In the late 1990s he had made money supplying the market by robbing graves. Mr Song (whose name is a homonym for the phrase “to send someone to heaven”) was jailed after he dropped his mobile phone at a grave he had plundered: the police used it to track him down. This January he was arrested again and confessed to strangling six women and selling their bodies. Killing for corpses, he said, was an easier way to make money than digging them out of the ground.

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Congo

Only just staying in one piece

Jul 26th 2007 | GOMA AND KINSHASA
From The Economist print edition

AFP

Since last year's historic elections, political and economic progress has stalled, while war drums are rumbling in the country's east

IF EVER there were an urgent case for change in Congo after years of neglect and war, it is Kinshasa's general hospital. The emergency room reeks of stale urine. The sick lie outside, while relatives collect money for treatment. Life-threatening cases are accepted but nothing happens until someone stumps up the cash—even if the patients die.

Nine months after Congo's elections (the first for more than 40 years), which were meant to mark a fresh start after a war that left some 4m dead, Dr Mbwebwe Kabamba, a surgeon in the hospital, is expecting no miracle overnight. But, like millions who walked miles, risked attacks by gunmen or simply stood in the rain to vote, he is looking for signs that those in power might improve the situation.

Candidates made spectacular donations of thousands of dollars to the hospital while they campaigned. But the doctor says none has been back since. “Many say that the elections were a waste of time,” he explains. “They don't see a difference between those in power before and those in power now.”

Change, so far, has been small. Joseph Kabila, who was nominated president in 2001 after his father, Laurent, was assassinated, is still president. But now he has a five-year mandate, after winning 58% of the vote. His first five years were spent trying to defeat rebels backed by the armies of neighbouring countries and then holding together an unwieldy transitional government. Now he must rebuild a country that was already crippled by decades of dictatorship and corruption before it descended into the war that lasted from 1998 to 2003, the most lethal anywhere since the second world war.

The elections were relatively free and fair. Even the cynical were ready to give Mr Kabila a chance after he made a triple promise in his inauguration speech: to ensure good governance, democracy and respect for human rights. But the signs since then have been less hopeful. In February the security forces killed at least 100 people demonstrating against rigged provincial elections. In March hundreds more, mostly civilians, were killed when fighting erupted between government forces and men loyal to Jean-Pierre Bemba, a former rebel who came second in the presidential poll. Mr Bemba's bodyguards were routed; he has gone into exile in Portugal. Attacks on journalists have also been increasing in frequency.

Diplomats whose countries spent well over $500m paying for the elections were shaken by the violence, particularly as some of their own houses were looted in the fighting. But the president merely castigated those who complained that his government had been heavy-handed.

The economy has yet to improve. Salaries have not gone up but prices in the markets have. Pot-holes in the capital have not been filled in. Electric power cuts out more often. Olivier Kamitatu, the planning minister, says the country will take time to get back on its feet. According to the UN, a Congolese person manages on average to get access to health care once in seven years. Last month a meeting of would-be donors to discuss ways of giving the Congolese a “peace dividend” was plunged into darkness by a power cut, despite being held in Kinshasa's plushest hotel.

Some good initiatives have been launched. The government has persuaded some opposition politicians who boycotted political institutions after the post-election fighting to return. Legislators promise to keep spending in check by reviewing it every three months. Those who want to run state bodies will now be tested by officials on some basic skills, not just their political connections. Logging and mining contracts worth billions of dollars will apparently be reviewed.

But there is no sign that the country's vast mineral resources will benefit more than a lucky handful. Few of the taxes that are paid actually go into the state coffers. A Western diplomat estimates that direct benefits to the state from mining totalled a paltry $32m last year, though Congo-based copper-mining companies alone have made hundreds of millions on stockmarkets in recent months.

Parliament has adopted a budget for 2007, albeit more than six months into the year. But the government may struggle to lure back donors after mismanagement led to the suspension of many lending programmes agreed on last year. The budget this year, for a country of 60m-odd people, is a meagre $2.4 billion.

Look east and tremble

Most worrying of all is the east, the centre of the last two wars, where land and ethnic issues still stir up hatred. Rebel Rwandan Hutus, home-grown militias and an abusive national army all continue to prey on civilians. In North Kivu, the UN's Children's Fund (UNICEF) has helped 250,000 people who have fled violence since the elections. Faced with the killing, raping and looting, civilians no longer differentiate between the various groups of men with guns. “They all just pillage,” says a skeletal man sheltering in a church. “It doesn't matter which side they are on.”

Hutu rebels from Rwanda, many of whom took part in the genocide of 1994 when some 800,000 or so Rwandans were killed, once gave the Rwandan government a reason for invading eastern Congo. They no longer threaten Kigali, Rwanda's capital. But their very presence in Congo enrages their Tutsi enemies in Congo's east, especially their self-proclaimed protector, General Laurent Nkunda, a Congolese Tutsi who refused to join the army after the war and has led a rebellion in the east instead.

President Kabila's government says it wants Mr Nkunda arrested for war crimes, but Mr Kabila has also sent an envoy to negotiate. Turning

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down an offer of $2.5m and a life of exile in South Africa, Mr Nkunda accepted a deal in January to integrate some of his men into the national army. Mr Kabila hoped this would weaken Mr Nkunda. Instead, it let him recruit more Tutsis and others from Rwanda. He claims still to want to join the national army, but his influence has spread across North Kivu. By taking over the police, tax collection and the intelligence services, he runs a parallel administration.

Mr Kabila is now sending soldiers, tanks and helicopter gunships to the east, threatening to squash Mr Nkunda for good. “There's an international plot against the Tutsis and we won't accept it,” says Mr Nkunda in his headquarters, protected by well-trained soldiers and anti-aircraft guns. “They can come and attack. They have all the means but I will take them on. I'm not scared to die.”

Much of this mess arises from botched attempts to reform the army and police. Foreign donors failed to plan how to integrate tens of thousands of gunmen into a national army. A demobilisation and reintegration programme stopped at the end of last year as the money ran out and the agency involved was accused of corruption. Some 15 integrated brigades, embracing men from groups that had fought one another in the civil war, have been formed, but they are pretty chaotic. Some 80,000 soldiers remain in separate units.

Kabila still needs the peacekeepers

In any event, the rump of the army is rotten. By one account, soldiers get just 15 meals a month. Most of their wages are stolen, so they turn to theft in their turn. The 100,000 or so who had demobilised have had little success in finding jobs. Many may rejoin armed groups out of frustration. Western diplomats say the government will soon turn to China for a no-strings arms deal and military training in return for easier access to mining, oil and logging.

Can outsiders hold the ring for ever?

This leaves the UN's 17,000 peacekeepers stuck in the middle. Some have been accused of participation in sex rings and gold smuggling. But without the UN, the elections would not have taken place. The UN mission, a state within a state, is in an increasingly awkward position. For instance, despite the fact that some of Mr Nkunda's men have committed war crimes, the UN must still carry out joint patrols with them as they are officially part of the national army. And if violence were to erupt again, the UN would probably be asked by Mr Kabila to help him arrest rebel leaders such as Mr Nkunda. This poses a danger of the UN being sucked into a new civil war.

With the elections over and new missions elsewhere, pressure is mounting for the UN's force to be reduced. The Congo mission costs more than $1 billion a year. William Swing, its head, has given warning against pulling out before the job is done. “I've said please don't give us arbitrary draw-down formulas. I want something that makes sense in military terms.” But no one seems to know what that will be—and few are confident that Congo can stand on its own feet any time soon.

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Southern Sudan

Looking for a new identity

Jul 26th 2007 | NAIROBI
From The Economist print edition

And finding a paradise not yet lost

Get article background

IN MANY respects, south Sudan is already its own country. It issues its own visas, decides most its own policies and mishandles its own budget. Of course, tricky deals over the ownership of oil and the Nile waters must be negotiated before full independence. And there is always a small chance that the Sudan People's Liberation Movement (SPLM), which runs the south, may do well enough in elections for all of Sudan (due to be held in 2009) to alter the shape of Sudanese politics overall, the north included. But as things stand, almost all southerners believe that, after a referendum promised by the central government in Khartoum, south Sudan will become a sovereign country by 2011.

That raises new questions. For one thing, what would the new country be called? The betting is on New Sudan, the name favoured by John Garang, the SPLM's charismatic leader killed in a helicopter crash in 2005. But establishing the new country's identity will be harder. Even SPLM zealots accept that the largely Christian and animist south cannot define itself just negatively, in opposition to the Muslim north.

Many leading lights in the south Sudanese government, including the president, Salva Kiir, want the new country, whatever it is called, to become part of east Africa rather than a southern spin-off from the rest of Sudan, which is mainly Arab and Muslim and looks more to the Arab world. South Sudan's economy would tilt to the south and east.

Most trade goes via Uganda. In Juba, the southern capital, the most-used mobile-phone network operates from Uganda with a Ugandan code and Ugandan local rates, while calls to Khartoum are deemed international. There is also talk (in South African and German circles, among others) of building a railway from Juba, south Sudan's capital, to Gulu in Uganda, to connect with the main east-African network. Most of south Sudan's diplomatic links are through Kenya. Some schools are already replacing Arabic with English.

Another new way to nudge south Sudan into east Africa is through wildlife and tourism, especially after a recent discovery that south Sudan's wild game is far more abundant than had previously been reckoned. Earlier this year, the Wildlife Conservation Society, an American outfit, uncovered one of the world's

biggest animal migrations in south Sudan. Conservationists flying low over uncharted territory discovered a vast array of wildlife, especially in Boma, along the border with Ethiopia. Paul Elkan, the Kenya-based Wildlife Conservation Society's main man for south Sudan, says the scale of migration may exceed that of Tanzania's Serengeti.

“It is a paradise not yet lost,” says an ecstatic Mr Kiir, who has already signed agreements with the conservationists. An immediate goal is to limit the destruction caused by the oil business. Thanks to graft and negligence, Chinese and other contractors have installed massive and polluting infrastructure across the south with no environmental oversight.

In the long run, Mr Kiir hopes to set up a national parks system to protect the Boma migration, improve land management and provide jobs for former fighters as rangers and guides. A grander hope is that it could bolster New Sudan's new identity—and its claim to be part of east Africa.

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Botswana

Precious goes to Hollywood

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A small African country steps into the limelight

AT THE foot of Kgale Hill in Gaborone, the capital of Botswana, the fully equipped Last Chance hair salon and several shops opened their doors earlier this month. Local residents tried to get haircuts and make some purchases. But they were turned away: the buildings, looking rather weathered despite being new, are a film set, erected in a few weeks out of the bush. “The No. 1 Ladies' Detective Agency”, Alexander McCall Smith's bestselling novel, set in Botswana, is making it to the screen.

This is the first film to be entirely shot in Botswana. Anthony Minghella—of “The English Patient” fame—is directing, and an American singer, Jill Scott, plays the heroine, the no-nonsense Precious Ramotswe, Botswana's only female detective. The film will first be shown on British television, before being distributed worldwide. A series is then expected to be shot at the same location.

Jill Scott as Precious Ramotswe

Botswana, a country almost the size of Texas with 1.6m people, is known for its diamonds, wildlife and stunning landscapes, but movies are something new. Yet Amy Moore, the American producer, wanted the film to be shot there. “Botswana is a character in this movie,” she says. “Not shooting it here would be ripping the heart out of the project.”

The government, keen to attract more tourists and kick-start a film industry to create jobs beyond mines and tourism, has invested about $5m in the film, about 40% of the total budget. The novels themselves have already done a lot to put Botswana, already a high-end safari destination, on a bigger tourist map. Foreigners who had never heard of the country are coming, charmed by the spirit of Ms Ramotswe's world. Africa Insight, a local tour operator, started literary tours in 2003, adding on to their usual safaris visits to the detective's village, her house in Gaborone and other real-life locations that are featured in the books. And bookings have been taken until October next year.

But as for building a film industry, Botswana will struggle to compete with neighbouring South Africa, where blockbusters such as “Blood Diamond” and “Hotel Rwanda” have been filmed in part, attracted by financial incentives and local talent. Even so, the future for this film at least looks rosy. On a trip to Botswana last year the producer consulted a local witch-doctor about the film. “This is going to be a long journey,” asserted the toothless elder, “but a successful journey.”

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Zimbabwe

Kroners for cronies

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How to prop up the government

ROBERT MUGABE'S Zimbabwe exemplifies in extreme form the difficulties of helping ordinary people in countries with extraordinarily bad governments. Amid the economic collapse, particular social groups have been singled out and have suffered intensely. Nearly 4m people—one-third of the population—are reckoned to have fled the country, but many of the poorest are in no position to leave.

So it is right that while the big donor agencies have stopped aid to Zimbabwe's government they still help such groups. Last month Hilary Benn, who then headed Britain's Department for International Development (DFID), said that “the UK does not give direct funding to the government of Zimbabwe. All DFID's bilateral funding is channelled through NGOs and UN agencies, much of it programmed jointly with other donors.”

But here lies the rub: providing funds that bypass the government is easier said than done. By Zimbabwean law, all official foreign-currency transactions must go through the central bank. With hyperinflation, a gap of around 10:1 has opened up between the official exchange rate operated by the bank and the true rate reflected in the black market. Were donor agencies fully to comply with this requirement and transact their aid at the official rate, around 90% of the value of their aid would be captured by the central bank, which would be purchasing the aid dollars at around a tenth of their value.

Faced with this dilemma, most donors, including DFID, have negotiated special rates with the central bank—usually around the mid-point between the official rate and the black-market rate, though even this implies that the central bank captures around half of official aid.

But Norway's aid agency has gone even farther. Apparently it feels obliged by its principles of good governance to transact all its aid at the official rate, at times inadvertently handing most of its aid to the central bank. As conventional tax revenues to the finance ministry have dwindled in the face of economic collapse, the central bank has increasingly become the locus of government finance, thanks both to its capture of foreign exchange and its printing of money. It must be the world's only central bank that itself imports tractors.

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Middle East diplomacy

Blair of Arabia

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From The Economist print edition

Britain's former prime minister faces a grim challenge

Get article background

BEING a Middle East peace envoy is a thankless task. Ask James Wolfensohn, the former World Bank boss, who gave up his effort to revive the Gaza Strip in 2006, complaining that he had been denied the mandate to do more. Or ask Alvaro de Soto, the Peruvian diplomat who did the job for the UN until May, and later compared his role to that of the comical Black Knight in the film “Monty Python and the Holy Grail”. The knight's limbs are cut off one by one in battle, yet he keeps up the fight. “I'm invincible,” he proclaims. “You're a loony,” retorts the king.

Tony Blair has been in the job for less than a month since retiring as Britain's prime minister, and is already feeling the slashes of the sword. The first swipe came from Frank-Walter Steinmeier, Germany's foreign minister, who complained that Mr Blair had been appointed behind closed doors by America without consulting the so-called quartet—the club of America, Russia, the European Union and the UN—that Mr Blair is now supposed to represent.

AFP

That hand of history, again

Then came an “open letter” from ten of Europe's Mediterranean countries, which said his mandate, to help build the institutions of a future Palestinian state, was too limited. Mr Blair, they said, should tear up the quartet's old “road map” and seek an all-inclusive peace agreement between Israel and the Palestinians.

The Americans, though, insist that Mr Blair's authority will not extend to high diplomacy. They will lead the way along the “political track”, says Condoleezza Rice, the secretary of state. Italy told Mr Blair not to isolate Hamas, the Islamist movement that rules the Gaza Strip, but Israel says that is precisely what he must do. Merely by taking the job, Mr Blair has stepped on the toes of all the other Middle East envoys, not least Michael Williams, the UN envoy, and Javier Solana, the EU's foreign-policy supremo.

Despite it all, he remains defiantly optimistic. On his first foray to the Middle East as envoy this week—with a staff of two, no permanent office and relying on the help of British diplomats—Mr Blair said his aim was to “listen, learn and reflect”, but he nevertheless felt “a sense of possibility...a moment of opportunity”.

Yet things have gone from bad to worse since the last abortive attempt to negotiate an Israeli-Palestinian settlement, at Camp David in July 2000, which was followed by a Palestinian uprising. Neither the election of Mahmoud Abbas as the Palestinian president after Yasser Arafat's death in 2004 nor Israel's withdrawal from Gaza the following year stopped the downward spiral. If anything, they spurred the rise of Hamas, the most prominent of the factions waging a violent campaign against Israel—and led to the fratricidal violence in Gaza that resulted last month in the defeat of Mr Abbas's secular Fatah movement.

But the crisis may have jump-started Middle Eastern diplomacy. Mr Abbas has sworn in a new government led by a technocrat. Israel has given him part of the hundreds of millions of dollars it had frozen, freed 250-odd Palestinian prisoners and is letting Mr Abbas boost his Fatah-led security forces in the West Bank.

The immediate aim is to shore up Fatah and avert a Gaza-style collapse in the much larger West Bank.

But there are also the first signs that the process may start going beyond mere crisis management. Mr Blair's mandate is to create the conditions for a viable Palestinian state, and he is due to present his proposals in September, ahead of an American-inspired international conference. This week the Arab League, a club of 22 countries, sent an unprecedented delegation to Israel, consisting of the foreign ministers of Egypt and Jordan, formally to present a peace plan. This envisages the Arabs agreeing fully to normalise relations with Israel if it fully withdraws from territories captured in 1967 and agrees to a "just solution" for Palestinian refugees dating back to 1948.

Israel has also started to talk differently. It still says it will not immediately negotiate a "final status agreement" with Palestinians. But an Israeli newspaper, *Haaretz*, reports that Ehud Olmert, Israel's prime minister, is ready to negotiate an "agreement of principles" to create a Palestinian state on 90% of the West Bank.

Nothing about the latest diplomacy is plain. None of those involved—Mr Olmert, Mr Abbas, moderate Arab leaders, George Bush and even Mr Blair—seems likely yet to have the will or the courage to tackle the explosive issues (the division of Jerusalem, the removal of Jewish settlements in the West Bank, redrawing borders or addressing the refugee question) that have prevented a lasting peace before. Welcome, Mr Blair, to the snake pit.

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Israel's economy

Vigorous but vulnerable

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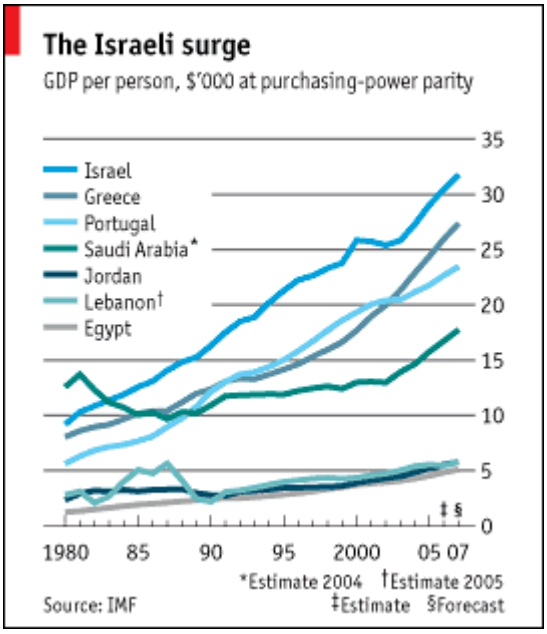
Israel worries about how to keep its economy as buoyant as it is

ITS conflicts may be never-ending and its politics ever more scandal-ridden, but for a while Israel has had an economy to be proud of. It has been growing since the summer of 2003, when the second Palestinian *intifada* was still raging, at a robust annual average of 5% a year, barely slowing even after last year's war in Lebanon. The shekel is strong, the ratio of debt to GDP is down, the budget in surplus and foreign investment at record levels. GDP a head is about six times higher than that of its closest Arab neighbours; it is richer per person than Greece or Portugal (see chart).



One reason is tax cuts and deregulation, imposed in the wake of the 2001 dotcom crash and the outburst of the *intifada*. Also, the defence industry has done well in the wake of 9/11, and Israel's technology sector, driven by a highly educated workforce and incentives to entrepreneurship, comes second or third in the world in numbers of start-ups, firms listed on NASDAQ and patents filed.

But economists look to the future with furrowed brows. The ebullient tech industry employs just a few tens of thousands of people, and they are the ones—young, educated, multilingual—who can most easily move abroad if things turn nasty. Outside that sector, much of the economy is rather more sickly. The productivity of traditional industries is falling, and they spend just a quarter as much on research and development as their American counterparts. While some European governments are increasing their education budgets by 3% a year in per capita terms, Israel's is falling by 0.7%, says Nathan Sussman at the Hebrew University—something parents are having to make up for by hiring private tutors. In other words, Israel is becoming less competitive, even as other countries elbow their way into global markets.

The country is also becoming more unequal. The proportion of families below the poverty line (which is measured relative to the average income) has risen from 17% in 1998 to 20% today, while the proportion of poor children has rocketed from 23% to 35%. This is partly because social benefits were reduced to permit the recent tax cuts, but also because of high unemployment among two groups of Israelis with big families: Arabs and ultra-Orthodox Jews, together nearly a third of the population. As a result, those who do pay taxes will face a growing bill to cover social benefits for the rest.

The government recently adopted a “socio-economic agenda” for the next three years, which aims to reduce poverty and increase employment, each by 3%. Its author, Manuel Trajtenberg, head of a national economic council to the prime minister that was set up last year, says the key is not to restore benefits but to get more people into work. That means, in particular, finding jobs for ultra-Orthodox men, and giving them incentives to work and pursue professional training instead of studying Torah on government handouts; and helping Arabs, who often suffer discrimination in getting jobs.

It also means reducing the pool of foreign workers, who since the *intifada* have replaced Palestinians in doing much of the hard, low-paid work, and introducing tax rebates for the poorest. Later on, there will be programmes for repairing the education system (a committee on that is due to report next week) and promoting research and development in science and industry.

Where have the menial workers gone?

The trouble is making such ideas stick. Many measures in Mr Trajtenberg's agenda already exist but have been hampered by politics or bureaucracy. In Israel's chronically unstable system of coalition governments, small parties that represent the religious and the poor demand handouts for their voters in return for propping up the government. Getting rid of foreign workers will be unpopular with employers; there is already a shortage of people willing to do their jobs.

The optimistic Mr Trajtenberg hopes that a single comprehensive plan with one office (his) in charge can provide the needed momentum. He also wants to change the way budgets are planned, so that short-term politics cannot hijack the kind of funding that will be needed to pay for the later stages of the agenda. But he will need full support from his boss, and it is far from clear for how long, and at what political price, Ehud Olmert can remain prime minister.

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Libya

Bribery wins, for the moment

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Libya hopes to come in from the cold after freeing the Bulgarian nurses

AFP

THE final outcome of the long-running saga of five Bulgarian nurses and a Palestinian doctor nonsensically convicted of deliberately infecting some 400 Libyan children with HIV/AIDS but suddenly freed this week and flown to Bulgaria is bizarre. It reeks of bribery—yet may herald Libya's faster opening to the wider world.

Last December, after two trials that followed the nurses' original arrest in 1999, the six were again sentenced to death, though a bevy of distinguished AIDS scientists testified that the cause of the infections, which began even before the nurses had arrived in Libya, was almost certainly poor hygiene and the re-use of unsterilised needles in the hospital in the coastal city of Benghazi. The death penalty was commuted earlier this month to life in prison after a mysterious payment of $460m was said to have been paid via an international fund to the victims' families. No one seems yet to know exactly who has paid what.

In the saga's final act, France's president, Nicolas Sarkozy, and his sometimes estranged wife, Cécilia, took starring roles. The president had promised during his election campaign to make the jailed medics a priority of his foreign policy. Most unusually, earlier this month, he twice sent his wife and his chief of staff to Libya's capital, Tripoli, to lobby the country's leader, Colonel Muammar Qaddafi, for their freedom. The nurses and the doctor later flew to Bulgaria in Mr Sarkozy's presidential jet.

Officials of the European Union, which has long been immersed in the affair, have privately grumbled that Mr Sarkozy has stolen their glory. Benita Ferrero-Waldner, the EU's external-relations commissioner who had earlier brokered a deal on medical aid and reopening political ties with Libya, sounded taken aback by the late intervention of Mr Sarkozy's wife. The French president, quick to capitalise on his wife's success, flew to Libya the very day after the nurses' release, and promptly signed a French-Libyan agreement to co-operate on nuclear energy.

In the long run, Mrs Ferrero-Waldner's deal matters more. The Europeans all officially deny that ransom money was paid for the medics' release. But assistance is now expected to flow into Libya. The European Commission's president, José Manuel Barroso, suggests that a “normalisation of relations” with the EU is possible. Libya's foreign minister, Abdel Rahman Shalqam, says the deal will allow for “full co-operation and partnership”. Libya is expected to get EU aid to rehabilitate some hospitals, to encourage Libya to stem the flow of illegal immigrants into Europe, to help protect Libyan archaeological sites, to improve education and so on.

In recent speeches, Mr Qaddafi has said Libya cannot resist the tide of globalisation; there could be no going back to the “era of hostility and confrontation” when the West ostracised him for sponsoring terrorism. He has even promised that the day will come when his people no longer need him as their leader. Yet so far, despite the hopes raised three years ago after his decision to give up a secret nuclear-weapons programme, when investors started to flood in amid talk of deeper reforms, there has been no political loosening.

Mr Qaddafi has also complained that the United States and Britain have cheated Libya by not rewarding it properly for its nuclear about-turn and its decision to accept liability for blowing up an American airliner over Lockerbie in 1988. Following the medics' freedom, expect new calls for the release of Ali Megrahi, the Libyan agent sentenced to life in prison by a Scottish court in 2001 for the Lockerbie bombing. But it is far from sure, even if he were freed, that the Libyan people themselves would be granted greater economic or political freedoms.

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Elections in Turkey

The burden of victory

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From The Economist print edition

AFP

The ruling AK party has won resoundingly, but it needs to act cautiously

EVEN fans of Turkey's prime minister, Recep Tayyip Erdogan, were surprised by the scale of his success. His mildly Islamist Justice and Development (AK) party won 47% of the vote on July 22nd, a 12-point increase in the vote that swept him to office in 2002. During the campaign those who had predicted the success, such as Taha Erdem, a respected pollster, were accused of taking sides. “A fat lie,” declared Mine Kirikkanat, a pro-secular commentator, who has since had to eat her words. Others who have been soundly rebuked by the voters include the army, which helped to precipitate the early elections by trying to block AK's choice of candidate as Turkey's new president.

Mr Erdogan's gamble in going to the voters paid off. Turnout was a record 85%, with millions of Turks cutting short beach holidays to cast their ballots. AK secured 341 of the 550 seats in the parliament, allowing it once again to form a government on its own, but short of the two-thirds needed to force through its choice of president. Mr Erdogan may be strengthened, but he will still need all of the political deftness that has got him this far.

The breadth of Mr Erdogan's success is best illustrated by the new political map: nearly all of Turkey's 81 provinces, including seven mainly Kurdish ones, are painted in the AK party's yellow hue. Female representation in parliament doubled with some 50 women winning seats—more than ever before. The party's liberalising political reforms, which persuaded EU leaders to begin long-delayed membership talks with Turkey in 2005, played a part in the victory. But above all it was the government's economic performance—7.3% average annual growth, record foreign investment and lower inflation—that won the day.

AK draws much of its support from poorer Turks. “I don't have to stand in line for hours to see a doctor and electricity prices have not gone up,” explained Necla Evin, a cleaning lady. But the markets also responded enthusiastically, pushing the Turkish lira to its highest level against the American dollar in over two years. Share prices soared on the main index of Istanbul's stock exchange.

Accepting victory at his party's headquarters in Ankara, Mr Erdogan told the crowd that democracy had triumphed, and quickly pledged to keep up efforts to join the European Union (despite nay-saying from France and other EU countries). Mr Erdogan also tried to soothe the many urban and middle-class Turks who fear his party is bent on unravelling decades of secularism established under the founder of modern Turkey, Kemal Ataturk. “No matter who you voted for, I respect your choice,” Mr Erdogan said. “Your differences are our country's richness.”

However, his promise to seek consensus on a new president was being tested within days as Abdullah Gul,

the foreign minister whose presidential nomination had provoked the crisis, hinted that he would make a fresh run. “I cannot ignore the signal from the streets,” said Mr Gul, referring to his supporters' frenzied chants of “Gul for president” during the campaign.

The attempt to elevate Mr Gul to the powerful presidency had prompted millions of pro-secular Turks, wary of Mr Gul's earlier flirtation with political Islam, to take to the streets. Their fears were symbolised by the Islamic headscarf, banned in all government buildings and schools, worn by the wives of both Mr Gul and Mr Erdogan. Tensions grew sharply after the army, claiming to detect a dangerous slide to Islamism, threatened to intervene. The constitutional court upheld opposition arguments that a first round of balloting to elect Mr Gul had been invalid, on the ground that parliament lacked a quorum, forcing Mr Erdogan to call fresh elections four months ahead of schedule.

Turkey's friends agree that as a seasoned diplomat with determinedly pro-Western views, Mr Gul would make a fine head of state. Yet, having vetoed him once, will the generals back down? Their hand has been weakened by the poor showing of the Republican People's Party (CHP), founded by Ataturk, which failed to capitalise on the anxieties of pro-secular Turks, winning just 21% of the vote. Turkey's secular elite feels more vulnerable than ever before. “The dominant feeling among secularists is one of shock, impotence, fury and despair,” wrote Meral Tamer in the pro-establishment daily, *Milliyet*.

Mr Erdogan will have to move carefully. The CHP's leader, Deniz Baykal, is ignoring calls to step down and is certain to keep up his opposition if Mr Gul is nominated again. Lacking the two-thirds of parliamentary seats needed to form a quorum for a presidential vote, Mr Erdogan will have to turn for support to the far-right National Action Party (MHP), which took 71 seats (after winning none the last time round). The inscrutable MHP leader, Devlet Bahceli, has suggested he will co-operate, but he is likely to keep up pressure on Mr Erdogan to allow the army to enter northern Iraq in response to an upsurge in attacks by separatist rebels of the Kurdistan Workers' Party. Mr Erdogan may also have to lobby some 20 independents, most of them nationalist Kurds, who made it into the parliament.

Mr Erdogan has only cautiously endorsed a fresh candidacy by Mr Gul, perhaps because he does not want to pick a new fight with the generals. It was in deference to their sensitivities that Mr Erdogan dropped some 150 AK deputies, many of them Islamist ideologues, in favour of milder, more cosmopolitan candidates. This shift to the centre was also tailored to attract votes from Turks who never considered voting for AK before, notes Peter Van Praagh, senior director of the German Marshall Fund of the United States. Now that AK has support from mainstream Turks, he argues, the party will have to respond to their needs.

The party's conservative core supporters, however, may have other ideas. They see the party slipping out of their hands and may push Mr Erdogan to return to the issues dear to their hearts, but which Mr Erdogan has postponed during his four years in office: repealing the ban on Islamic headscarves, restricting further the influence of the army and lifting more of the restrictions on ethnic Kurds. As Mr Erdogan noted in his victory speech, “The burden of responsibility on our party is much bigger than before.” It may prove bigger than he wished for.

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Reform in Italy

La dolce pensione

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How old politicians are failing to deal with the ageing crisis

THESE days, not even in China do politicians work as long as they do in Italy. President Giorgio Napolitano is 82; the prime minister, Romano Prodi, and the finance minister, Tommaso Padoa-Schioppa, are a sprightly 67. Yet this gerontocracy seems strangely reluctant to prod the rest of the country into similarly long working lives.

On the contrary, Italian men stop work and begin living off the state at the average age of 60.7, among the youngest in Europe. In Sweden, by contrast, male workers keep going until 64.3. Italy can ill afford such easy-going retirement. It has one of the European Union's fastest-ageing populations, and its highest levels of both pension spending (about 15% of GDP) and public debt (107% of GDP in 2006).

Twice in the past 12 years, governments in Rome have reluctantly tried to face up to these anomalies. On July 20th Mr Prodi attempted to do so as well. But after months of hard bargaining with the trade unions (the employers' federation was not invited) and with his fractious centre-left coalition, he ended up watering down earlier reforms.

In 1994, Silvio Berlusconi's centre-right government decided to raise the minimum retirement age—from 57 to 60 as of next January, and thereafter gradually to 62 by 2014. Under Mr Prodi's deal, those in jobs defined as “arduous” will enjoy indefinitely the right to retire at 57. These include not only miners and the like, but also shift workers such as bus drivers and factory workers doing repetitive tasks—altogether, an estimated 6% of the workforce.

For other Italians, the minimum retirement age will increase next year, but only to 58 instead of 60. By 2013, those with the legal minimum of 36 years' contributions will be working until 61. Others with longer contribution records will still be able to stop up to three years earlier. Mr Padoa-Schioppa puts the cost of this “temporary concession” at €10 billion ($13.7 billion) over ten years. Almost half this sum is supposed to come from a rationalisation of the welfare bureaucracy, but the outcome is far from guaranteed. The gap may yet have to be filled by higher contributions.

A greater threat to the finances is the repeated delay in reducing monthly pension payments to take account of longer lives. Back in 1994, it was agreed that state pensions should be revised every decade, but Mr Berlusconi dodged the issue in 2004 and 2005. Last week Mr Prodi put it off to 2010. Thereafter pension levels will be revised every three years, or so the government says. Both the European Commission and the Standard & Poor's ratings agency voiced disappointment at the lacklustre reform.

The government's capitulation on pensions highlights the growing power of the trade unions and their allies in the two communist parties of the ruling coalition. At first, their impact (which also showed up in a tax-and-spend 2007 budget), was offset by the liberalising moves of ministers nearer the political centre. But the reformist drive is weakening visibly.

Pier Luigi Bersani, the economic development minister, has implemented two reform packages that removed mostly petty obstacles to greater competition and efficiency—from restrictions on the sale of non-prescription drugs to penalties for closing bank accounts. He claims to have saved consumers some €2.6 billion a year. His third proposal is now with parliament. But each of his reforms has been less ambitious than the one that preceded it.

A few streets away from his office in central Rome, Linda Lanzillotta, the regional affairs minister, also has a bill making its way through parliament. It aims to boost competition in local services, allowing private firms to bid for contracts to cook school meals, or to clean and light the streets of Italian towns. Not only could that cut local authority taxes, but it could also tear at a web of patronage that generates much of Italy's corruption. Yet Ms Lanzillotta's bill is being fought tooth and nail by the communists, who see it as a threat to local authority jobs and trade-union power. The political blackmail of the hard left is the most

visible. But ministers say the communists are not the only obstacle to improving Italy's competitiveness; centrists also defend their vested interests, blocking attempts to reduce the public wage bill, increase competition in services or break up the privileges of professionals such as lawyers and architects.

“We cannot go on like this,” argues Tiziano Treu, a centre-left senator, who is dismayed by the government's fast-waning popularity. “The greatest risk is that we come to be seen as a government of taxation, bureaucracy and state handouts.”

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Spain

Lost for words

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The difficult search for a new anthem

THE naughty ditty that generations of Spanish schoolchildren have sung to one another to the tune of the national anthem is hardly respectful. The words refer, among other things, to the former dictator, General Francisco Franco, his mother and his buttocks.

That today's schoolchildren still giggle over this is due, in part, to the fact that Spain's national anthem no longer has any lyrics. A Francoist paean to the fatherland was dropped after the death of the Generalísimo in 1975 and was never replaced. So Spanish sportsmen and women have nothing to sing when they take to the field in their country's colours or win international competitions. Whereas others belt out their anthems, Spaniards can only tap their toes or hum along.

“It is not fair that our sportsmen can only sing along by going *chunda-chunda-chunda* or *lo-lo-lo-lo* to the anthem,” says an official from Spain's Olympic committee, which has asked Spaniards to come up with new lyrics. Thousands of proposals have been submitted, and the best three or four will be chosen in September. Parliament will then be invited to decide which should become the official words to the anthem. And that, undoubtedly, is where the problems will begin.

The very idea of putting words to the Spanish anthem, a jaunty tune known as *La Marcha Real* (The Royal March), is explosive. Exuberant patriotism is still considered suspect. Politicians in one of Europe's most decentralised countries expend vast amounts of energy trying to define how many “nations”, “countries” or “nationalities” exist within its borders. How can one come up with stirring patriotic words that will not offend those Basques, Catalans or Galicians who either do not want to be Spaniards or profess far greater loyalty to their region than to their country? The government of the prime minister, José Luis Rodríguez Zapatero, is steering clear of the issue for as long as possible.

So what would be acceptable to the vast majority of Spaniards? One clue comes in the winning entry to a competition run by the Telecinco television channel. This sings the praises of love, freedom, culture, Europe, the world, the flag and the constitution. One difficult word, however, was avoided altogether: *España.*

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Russia

Putin versus nobody serious

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Russia's opposition is feeble, floundering and fading

Get article background

AT A recent gathering of Other Russia, a loose coalition of liberals, nationalists and communists who oppose President Vladimir Putin, a pro-Kremlin youth group lit candles and played a funeral march. The stunt cut close to the bone.

Russia's opposition may not yet be dead, but it is in a deep coma. The Kremlin has hollowed out politics by rigging rules on parties and elections. It has made it hard for the opposition to put its case on television and sent truncheon-wielding police to dispel protesters. But infighting, lack of ideas and above all low public support have done as much to hurt the opposition. Just four months before a parliamentary election and eight months before the presidential poll, it is divided, demoralised and lacks a single candidate. Mr Putin's approval rating, meanwhile, stands at a majestic, if propaganda-fuelled, 85%.

Some of Other Russia's key figures, including Mikhail Kasyanov, an ex-prime minister, and Vladimir Ryzhkov, an independent member of parliament, have left after a split with Garry Kasparov, a former world chess champion turned activist, largely because of clashing ambitions and trivial rows over procedure. Mr Kasparov and Mr Kasyanov, who says he wants to be president, argued for seven hours just over how to nominate candidates for parliament and the presidency. Their bickering has let down those who have risked attending Other Russia protests. “The bear has not yet been killed, but they're already trying to divide its skin,” says Eduard Limonov, leader of the banned National Bolshevik Party (see article).

The two older liberal parties, Yabloko and the Union of Right Forces (SPS), have hardly fared better. For years they have failed to combine, though both seek votes from the same sort of people; neither passed the 5% threshold for representation at the last parliamentary election, four years ago. That threshold has now been raised to 7%; the latest polls suggest that neither has a chance of getting over it. “I'm not scared of the Kremlin, but when you can't agree among your own people, it's time to leave politics,” says Irina Khakamada, who was a candidate for the presidency in 2004.

But the truth is that both SPS and Yabloko anyway tend to stay within bounds set by the Kremlin. SPS was founded and is funded by Anatoly Chubais, who runs Russia's state-backed electricity monopoly. He gets on well with Mr Putin and relies on his support for electricity reform. SPS is not planning to put up its own challenger for the presidency (which the Kremlin's candidate will almost certainly win). It is even nervous about putting some of its more outspoken activists on its list for the parliamentary elections.

The problem, however, runs deeper. As Boris Nemtsov, one of the SPS's more plausible leaders, says: “There is no real demand for a liberal opposition in Russian society.” Many Russians still associate liberals such as Messrs Nemtsov and Chubais with impoverishment, chaos and loss of national pride in the 1990s. As members of Boris Yeltsin's government, they talked of macroeconomic stability and fiscal discipline but never presented policies that resonated among ordinary Russians. Some of their oft-maligned reforms have come to fruition, ironically, under Mr Putin: helped by high oil prices, the economy is growing around 7% a year, the government budget is in surplus, inflation has been tamed and debt paid off.

Few Russians care enough about freedom of speech or human rights to risk their improving lifestyle. “The Kremlin has done a deal with the Russian people,” says Mr Kasyanov. ‘“Citizens! Enjoy life, travel abroad, buy cars, but don't get involved in politics...If your patriotic feelings start to stir, we'll satisfy them.'”

Indeed, whereas the appetite for liberal ideas is weak, nationalism remains strong. The Kremlin has set up parties of every hue to split and steal the opposition vote, while squashing any party it cannot control—and the nationalist simulacrums have fared worryingly well. If anyone breaks through the Kremlin's stranglehold, it is unlikely to be the liberals.

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Russia's opposition

A bolshie Bolshevik

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The man who would scare Vladimir Putin

Get article background

“PLEASE ring me later,” says Eduard Limonov. “I'm baby-sitting.” This hardly fits his image as the rabid dog of Russian politics, who has been a punk, a scandalous novelist, an extreme leftist and founder of the now banned National Bolshevik Party. One of the few opposition leaders who can summon an angry crowd, he is a contradictory figure. His party's flag has echoes of both fascism and Nazism: a black hammer and sickle on a red background.

Mr Limonov nowadays wants an alliance of right and left. “This isn't the time to argue about ideology,” he says. “We must work together to restore basic freedoms.” A leading light in Other Russia, a coalition that includes liberals and nationalists, Mr Limonov once allied himself with skinheads and rock musicians as well as ultra-nationalists. “Our party has had so many programmes,” he shrugs, “I really wouldn't pay much attention to them.”

After emigrating to the United States in 1974 Mr Limonov, now 64, became notorious for a profanity-strewn novel describing the louche life of an émigré in New York. With the end of the Soviet Union, he returned to Russia in 1991 as an extreme nationalist, lamenting the loss of the Soviet empire. He campaigned for the Serbs in the Bosnian war. His activists occupied the Ukrainian navy's headquarters in Sebastopol, in the Crimea, declaring it a Russian city. In the name of Latvia's ethnic Russians, he supported activists who took over a church in Riga. A few years ago his followers invaded the ministry of health in Moscow and tossed Mr Putin's portrait out of the window.

Mr Putin and his allies have espoused many of the same causes. “They took up our themes and are trying to imitate them,” says Mr Limonov. But his party was banned; he served two years in prison for an alleged plot to get a Russian-dominated part of neighbouring Kazakhstan to secede. Many of his comrades are still behind bars.

Most of his disciples are youngsters fired up by his revolutionary zeal. “Old-fashioned” parties such as the Communists or Yabloko are dying, he says, and the feebleness of their opposition has let Mr Putin's friends grab the Kremlin. “At least we are doing something.”

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Kosovo

Out with the UN, in with the EU

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The West seeks a way around Russia's veto in the Balkans

Get article background

WHEN the Americans and their friends in the European Union last week withdrew a proposed resolution on the future of Kosovo from the UN Security Council, it was clear that Russia and Serbia had won a hard-fought diplomatic battle. But Vojislav Kostunica, Serbia's prime minister, said that many more fierce engagements lay ahead. This is all the more true because Kosovo has increasingly become part of an argument between the West and Russia which has little to do with its rival Serbs and Albanians.

Still technically part of Serbia, Kosovo and its 2m people have been under the jurisdiction of the UN since the end of a war there in 1999. Some 90% of the population consists of ethnic Albanians who demand nothing less than independence. Serbia's leaders say that Kosovo, a land studded with medieval Serbian churches, can have anything it wants except full independence—the only thing Kosovo's Albanian leaders say they will not compromise on.

In the past four months Western countries have circulated several draft Security Council resolutions on Kosovo's future. All aimed to give it independence, making it the seventh and last state to emerge from the wreckage of what was Yugoslavia. Russia, with its power of veto, objected every time. It said it would support such a package only if it were agreed between Serbia and Kosovo's Albanians. Last year 14 rounds of talks between them, overseen by Martti Ahtisaari, a former Finnish president, failed to achieve any result.

Now, say the diplomats, it is time for the parties to talk again, this time under the aegis of the Contact Group, the informal body that has co-ordinated policy towards the former Yugoslavia since the early 1990s. Its members are Britain, France, Germany, Italy, Russia and the United States. Officially, this is what Russia and Serbia want. In fact, Serbia has no idea what its strategy should be. Kosovo's Albanians have no intention of making any more compromises than they already have for Mr Ahtisaari's plan for an internationally “supervised independence”, which has now hit the buffers at the UN.

Russia may have less interest in Kosovo itself than in the chance to stir up differences between its EU neighbours. But some EU diplomats say they have no intention of being thwarted by Russia. Along with the Americans, they aim to use the coming months to build up a critical mass of European countries ready to recognise a unilateral declaration of independence by Kosovo when the talks inevitably fail. But, in exchange for this, the EU wants Kosovo's government to invite a strong EU mission to replace the withering UN one in the disputed territory.

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Charlemagne

Money-go-round

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David Simonds

Why the European Union is spending billions in rich countries

AUGUST can be a trying time for hardline Eurosceptics. When they motor to picturesque corners of the continent after months of fretting about the powers of the European Union, they find themselves baited and enraged by countless billboards bearing the blue-and-gold European flag, announcing the EU's generosity in building some bridge, highway or waterworks.

These are the spoor of the EU's “cohesion policy”, a gigantic redistribution scheme that will eat up more than a third of the EU budget, about €350 billion ($480 billion) over seven years. Since its beginnings, the EU has sent money to far-flung, rural and poor parts, to help them catch up with the rest. The money goes mostly to regions rather than national governments, and there are rewards for cross-border schemes involving more than one country. All this has long bred suspicions among sceptics that regional funding is a Euro-wheeze to minimise (or erase) ancient national frontiers, in preparation for a federal Europe.

Those who inhabit the illiberal fringes of Euroscepticism are currently very cross about the tens of billions of euros being transferred annually from rich “old Europe” to the newest members. To quote Nigel Farage, a member of the European Parliament and leader of the (self-explanatory) United Kingdom Independence Party: “Why should our money go to new sewers in Budapest and a new underground in Warsaw when public services in London are crumbling?”

Not for the first time, however, the angry brigade is aiming at the wrong target. True, the European Commission has created a “client base of regional actors who swarm around Brussels, and don't trust national treasuries,” in the words of one EU diplomat. But nation states rule the roost. The EU always requires nations or regions to put up some (often quite hefty) matching funds. Any regional scheme too extravagant, or daft, to attract national matching funds usually withers and dies.

Rich countries have much to gain from an EU single market that strives for free movement of people, goods and capital. And there are sound economic and political arguments for investing in backward parts of such an open economic zone. EU projects in poor neighbourhoods are notoriously prone to corruption and waste, but the risks are matched by high rates of return. Invest the right funds in new members, and you can create new consumers and new markets, stabilise fragile democracies and limit the risk of massive, uncontrolled migration within the EU.

The scandal is not that the EU shifts money from rich countries to poorer newcomers, but that it recycles

large sums straight back to wealthy countries. Some of the least needy countries in the EU recoup tens of billions of euros. This is usually because they have some relatively poor regions (eg, Germany's eastern states, or Italy's south).

In the prolonged negotiations over the current budget, the Netherlands, Sweden and Britain (all countries that get measly returns from the cohesion policy) took a cue from the influential 2003 Sapir report on EU finances and proposed that rich countries should pay for their own regional projects, with less meddling from Brussels. But they were defeated. More than that, the EU budget for 2007-13 includes a new scheme dreamt up by the European Commission to spread money (often small sums) to all EU regions, even the richest. Under the twin rubrics of “competitiveness and employment” and “transnational co-operation”, the commission will spend more than €50 billion over seven years in prosperous countries.

Ask commission officials to defend such spending policies, and they offer a variety of reasons. They say, for instance, that their funds are the only reason some nice things (like art galleries in England) have been built, arguing that national authorities were not that interested until Brussels got involved. Perhaps so. But is curing British philistinism a job for Brussels?

Eurocrats talk of the efficiency of spending money through regions. This is debatable: Brussels is a fearsome generator of paperwork and meetings, even when very modest funds are on offer. And the point is irrelevant, anyway. Britain, for example, promised that if allowed to fund its own projects, the money would still flow through regional and local institutions.

Most revealingly, Euro-officials talk of the need visibly to spread largesse to every corner of the EU. People in rich regions must also see the fruits of cohesion spending, the argument goes, or they may resent sending money to poorer neighbours and come to see the EU as nothing but a machine for emitting annoying rules and regulations. Danuta Hübner, the EU commissioner for regional policy, says her funds shore up a sense of European “solidarity” across the EU. “Frankly speaking, this is a policy that is sometimes the only proof that Brussels exists, if you go to the regions that are quite far from national capitals.”

Flying the flag

Brussels takes “visibility” seriously. The rules for regional funds include instructions on the design of those European billboards that so irritate Eurosceptic motorists: at least one-quarter of the sign must be taken up with the EU flag and the name of the EU fund involved, and preferably the slogan: “Investing in your future”. In addition, every regional or central government body that manages EU-funded projects must mark Europe Day (May 9th) by flying the European flag outside its premises for a week.

Such policies are worse than silly; they are defeatist. They assume voters in rich EU nations must be bribed with their own money before accepting the benefits of free trade and open borders. Cohesion funds have been greatly expanded as part of a grand bargain two decades ago to help poorer states adapt to the rigours of the single market. Such rational investment was the right way to create a large and liberal open market. Bribery of the rich is wrong—and no number of smart EU billboards advertising such bribery can change that.

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Inundations

Double deluge

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AP

The second big flood of the summer has focused minds, for now

“WATER, water everywhere, nor any drop to drink.” Coleridge's thirsty mariner was becalmed on a sea of undrinkable water, and so were hundreds of thousands in England this week. Cloudbursts on July 20th were followed by a sodden weekend, leading to the highest water levels in 60 years. Up to 6,500 houses and 1,500 firms in Gloucestershire, Oxfordshire and Berkshire were flooded as the rivers Severn and Thames—England's biggest—burst their banks. Several people died, including two prematurely-born babies, and electricity supplies were cut off to 48,000 homes. The armed forces were drafted in to protect other bits of vulnerable infrastructure. Some 350,000 people were expected to be without tap water for up to two weeks because of a drowned water-treatment plant.

The worst seemed over as *The Economist* went to press. The rain stopped on July 24th, and water levels were falling slowly in Gloucester and Oxford by the next day, although the lower reaches of the Thames continued rising. In Reading, a largeish Thames-side town, schoolchildren were sent on their summer holidays early in anticipation of inundation. London escaped mostly unharmed, in part because of a lucky coincidence: favourable tides mean that water levels in the Thames's tidal reaches are low. But forecasters were predicting more rain, and with the soil already soaked, the rivers could well rise again.

The deluge was the second flood in what is now set to be the wettest summer recorded. Last month several northern cities and villages suffered even worse floods. Seven people died; 27,000 homes were evacuated. Total insured losses for this summer's floods are forecast to be between £2 billion ($4.1 billion) and £3 billion. The full cost—including uninsured losses, forgone production and the bill for emergency relief—will be much more.

In spite of attempts to conjure the Blitz spirit, a subtle “blame game” was going on even as the waters were rising. Weather forecasters had predicted the heavy rain several days in advance. The Environment Agency (EA), the quango responsible for flood defences, was criticised for taking too long to get emergency barriers into position. But the agency has complained of underfunding for some time. Hilary Benn, the environment secretary, repeated an earlier promise to boost spending on flood defences from £600m to £800m by 2010, although the EA has said that may need to rise to £1 billion in future. He also pledged an additional £10m to the £14m announced last month for emergency relief.

Such assurances suggest that ministers have learned valuable public-relations lessons from the deluge in June, when they were accused of being slow to react. Gordon Brown toured the drenched areas by helicopter, and this time the prime minister referred explicitly to climate change, giving warning that

predicted alterations in weather patterns meant vital infrastructure might have to be moved to higher ground. That was eerily similar to a statement made in 2000 by John Prescott, then the deputy prime minister and environment secretary, after another set of floods. “This storm should be a wake-up call,” said Mr Prescott, arguing that infrastructure needed reinforcing and that building on flood plains should be discouraged.

Despite Mr Prescott's words, there were no substantial changes to official policy on house-building. Mr Brown—who has made housing a central theme of his government—seems even less inclined to be blown off course by the inclement weather. A tenth of England's houses are on flood plains, and many of the 3m new homes the government wants to see built by 2020 are to be in similarly risky areas.

Build and be damned

Ministers were at pains to play down the risk, pointing out that planning guidance has been strengthened and so has the role of the EA, which is meant to advise on flood risks to new developments. Yvette Cooper, the housing minister, hinted that Whitehall may overrule local councils that ignore such advice. In any case, say officials, there is little alternative: often flood plains are the only land left once metropolitan greenbelts and sites of outstanding beauty or interest are excepted, especially in England's crowded south-east where demand for new homes is highest. Simon Hughes, a flooding expert at the EA, is blunt: “Much of the country is a flood plain. 10 Downing Street is built on the flood plain. No one is saying we should abandon building there completely.”

But urbanisation itself makes floods worse, by allowing water to run more quickly into rivers. And the problem will only grow. Southern Britain is sinking slowly as the north of the country rebounds from the weight of ice-age glaciers. More generally, climate-change experts predict increasingly extreme weather and rising sea levels as the planet warms.

The impact of flooding can be blunted by more sensible house-building (designated flood plains in housing developments, for example, or raised floors, or even putting the main living spaces upstairs). But the true cost of both flooding and flood-prevention schemes is hidden from those at risk. An unspoken agreement between the government and insurance firms meant that, until recently, even houses at considerable risk were insured, in return for state funding of flood defences. Flood insurance is still bundled into most home-insurance packages, meaning that homeowners in dry bits of Britain subsidise those who live in potentially damper places. That agreement has weakened in the past few years, as the cost from flooding has risen. It might be best if it were to disappear altogether. Higher insurance costs would expose the true risk of living on the flood plain, encouraging people to make more sensible choices.

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Drug-strategy review

Prescription renewal

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No one can get rid of drugs but reducing the harm they do is cheap and simple

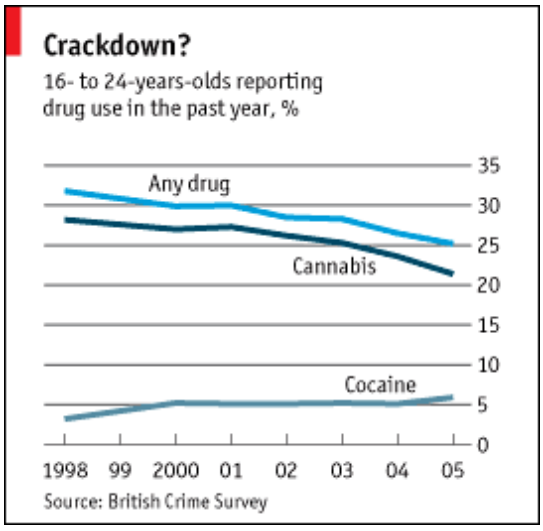
IT WAS the day the cabinet came out of the closet. When Jacqui Smith, the home secretary, admitted on July 19th that she had smoked cannabis in her student days, ministers rushed to get their own confessions out of the way. By the end of last week seven of her senior colleagues, including the chancellor and the drugs minister, had come into the open about their own youthful pot-smoking.

By wonderful irony the prime minister, Gordon Brown, had a day earlier ordered a review of the drug's legal status. In 2004 cannabis was downgraded from a class B drug to class C on the official three-point scale of seriousness which supposedly reflects the harm that illegal drugs cause and determines the penalties attached to possessing or dealing in them. Now, as the government prepares to renew its ten-year drug strategy, Mr Brown has hinted that he favours upgrading cannabis again.

It is only two years since the last review of cannabis classification, which left things alone despite reports that modern varieties were stronger than the sort that Miss Smith used to puff. And it is just a month since Mr Brown declared he had no wish to revisit the subject. A recent Tory report calling for cannabis to be upgraded, among other "tough" anti-drugs proposals, may explain his change of heart.

Britain's main problem drug, in fact, is alcohol. Young Britons swig far more than their peers in any other rich country, according to UNICEF. Drink-related deaths nearly doubled between 1991 and 2004, to 8,221—many more than the 1,644 who died from drugs in 2005. But Britain is also the stoned man of Europe. Among teenagers, only the Swiss smoke more cannabis; British adults beat most others on heroin, cocaine and ecstasy. The government says drug-taking is falling (see chart), but most of this is down to a dip in cannabis. Cocaine, more dangerous, has flourished.

This is despite a decade of real "toughness". The number of jail years given for drugs offences increased by 22% between 1998 and 2005, thanks to longer sentences and more convictions. Officers seized nearly seven tonnes of cocaine in 2003, compared with less than one in 1996.



It is hard to know how strongly would-be drug users are deterred by the law, but the decline in cannabis consumption since it was downgraded suggests not very. And despite the efforts of the coastguards, cocaine is cheaper now than it was a decade ago. The government will not say how much its drug-enforcement efforts cost, but an estimate from the UK Drugs Policy Commission, an independent board of brains, puts it at about £2 billion ($4.1 billion) a year.

The £570m allocated for drug treatment last year is a fraction of this, but it is nearly a third more than three years ago (alcoholism charities now say they feel left out). The number being treated has more than doubled in the past decade; some 55% of those the Home Office identifies as "problem" users are enrolled, compared with 17% in America. Measuring results is more important than just "pushing people through the door and counting them", says Danny Kushlick of Transform, a campaign group. But efforts to measure effectiveness are improving too. On July 25th NICE, the body that measures the cost-effectiveness of medical care, released guidelines on drug treatment, recommending innovations including vouchers for those who wean themselves off the stuff.

Those who cannot give up can still be helped. Doubling the proportion of primary schools that provide drugs education has not stopped cannabis use among 11-year-olds from increasing, but may help children who take risks to do so more safely. An official "safer clubbing" campaign warns youngsters not to mix

ecstasy with other drugs if they choose to take it. Needle-exchange depots give heroin users a chance of escaping AIDS and hepatitis. Ayesha Janjua of Turning Point, a charity, would like sterile spoons, filters and other equipment to be made more widely available. This strategy seems to be paying off. Until 2001 the number of deaths from drugs had been rising steadily. Since then it has fallen back to below 1997 levels.

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Northern Ireland

Now for the really hard part

Jul 26th 2007 | BELFAST
From The Economist print edition

Bringing in the loyalists

Get article background

WHEN IRA gunmen swapped violence for political influence, the world heaved a sigh of relief. But nearly three months after devolved government was restored in Northern Ireland, their loyalist counterparts remain caught up in drug-dealing and extortion. Having failed to turn themselves into a political force, they are in effect excluded from the new government at Stormont that is headed by the unlikely duo of the Rev Ian Paisley, a fundamentalist Protestant preacher, and Martin McGuinness, a former IRA leader.

Mr Paisley blew hot and cold on the Protestant militias early on, and as a result is as unpopular with them as Mr McGuinness. Nor does any other mainstream politician have particular influence over the paramilitaries. Yet ironically the loyalists, though they are now outside the consensus, were enthusiastic about the “peace process” from the start, unlike Mr Paisley and other unionist politicians. When the first ceasefires took place, the Ulster Defence Association (UDA) and the Ulster Volunteer Force (UVF) produced political parties to support them. All that remains of that effort in the Stormont assembly is a single representative of the Progressive Unionist Party, linked to the UVF.

So at first it seemed ominous when a loyalist shot a policeman on July 21st in the small coastal town of Carrickfergus, in County Antrim. But the officer was released from hospital within days, only two shots were fired and they were probably not intended for him. The police had just stopped a car containing a crossbow, batons and tear-gas canisters, and made several arrests as dozens of burly UDA leadership supporters piled into a housing estate to confront other similarly sturdy types.

Jackie McDonald, the UDA's “senior brigadier”, claimed that he was meant to be the gunman's target. The previous day, with the other five members of the “Inner Council”, he had denounced local UDA leaders as drug-dealers, introduced a new local “brigadier” and urged support for the police. Those who agreed with him were then threatened with eviction from their homes, they claimed. So large numbers arrived to protect them, the police one step behind. After several arrests, the local faction called for mediation.

The British and Irish governments, desperate to bring peace, have flattered loyalist leaders with meetings in London and Dublin, and provided funds to clean up objectionable graffiti. Mary McAleese, a Belfast Catholic and Ireland's president, has spent much of her time in office trying to lessen loyalist suspicion of the Irish state. Her husband, Martin, has introduced loyalists to potential donors, and the couple treat Mr McDonald as a friend: Mrs McAleese greets him with hugs and her husband takes him golfing.

But all has not been roses. A Belfast court heard last year that an ousted UDA figure, Andre Shoukri, had gambled away £863,000 ($1.7m), some of which had apparently been raised by Mr McAleese. Since then UDA leaders have secured £1.2m over three years from the British government to finance “conflict transformation”. Many suspect that, as so often in the past, well-placed individuals rather than disadvantaged districts will profit most from the assistance.

Last month the Stormont minister who assumed responsibility on devolution for disbursing the money, Margaret Ritchie, said it would not be paid unless the loyalist paramilitaries turned in their guns, as the IRA had done. Mr McDonald accused her of conducting a witch-hunt: the UDA could not “be seen to be selling” their guns, he said, and loyalists would have to feel secure before they could disarm.

Miss Ritchie is a Catholic, the moderate nationalist SDLP's sole minister. Yet no unionist politician found a pretext to criticise her, which would once have been an automatic reaction. The UDA's attempt to be the good guys in Carrickfergus may be yet another advance.

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Terrorism laws

Once more unto the vote

Jul 26th 2007
From The Economist print edition

A new attempt to pass an unpopular law

GLEAMING new initiatives are how Gordon Brown would most like to begin his spell as prime minister. Yet some stale old problems refuse to go away. On July 25th Mr Brown returned to the question of how long police should be allowed to detain terror suspects before charging them—the issue that cost Tony Blair, his predecessor, his first defeat in Parliament.

Mr Brown reeled off a slew of policies to beef up Britain's security, among them many aimed at tightening its borders with the outside world. A unified border force, originally a Tory idea, will patrol Britain's ports and airports, carrying out more sophisticated electronic checks on comings and goings. Lists of suspects will be shared with Interpol and European agencies. The focus on foreign menaces follows the attempted terrorist attacks last month in London and Glasgow: most of those suspected in connection with them are foreigners.

So far, so uncontroversial. But then Mr Brown announced his plans for detention. Mr Blair lost the vote when he tried to increase the limit to 90 days. Mr Brown now says 56 days—twice the current cut-off—is a good compromise.

Doubling is the traditional method of increase. The Terrorism Act of 2000 gave police a week to quiz suspects. In 2001, shortly after the attacks in America, MPs voted to extend it to a fortnight. In 2005 backbenchers agreed to double the limit again to 28 after rejecting 90 days.

It is not at all certain that the same trick will work again. Both main opposition parties are opposed, so Mr Brown will have to rely on the 49 Labour MPs who revolted in 2005 changing their minds. There is not much new evidence to sway them. Mr Brown says that so far six suspects have been held for 27 or 28 days, implying that the police are already down to the wire. Civil libertarians say it proves only that the police use as much time as they are given.

Lord Carlile, the independent reviewer of terrorism legislation, worries about having a long maximum period for this reason. But his solution is arguably more draconian still: he wants senior judges to be able to keep suspects banged up for as long as they see fit. Ken Jones, head of the Association of Chief Police Officers, says suspected terrorists should be held for “as long as it takes”.

Mr Brown has more clout with his party than Mr Blair did in 2005. His current popularity improves his chances of forcing through a vote—but it stands to diminish in the process.

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Railway reform

The age of the train

Jul 26th 2007
From The Economist print edition

Modest improvements to the railways will be financed by higher fares

Get article background

DESPITE the received wisdom that privatisation was an unmitigated disaster, Britain's railways have prospered over the past ten years. Passenger numbers have risen by 40%, and trains now carry more people than they have in 50 years. Such popularity is causing problems: commuter routes are intolerably crowded and some sections of line are running out of capacity. On July 24th the government published detailed plans for the railways until 2014, and a vaguer set of ambitions for the next three decades.

Ruth Kelly, the new boss of the Department for Transport (DfT), trumpeted its planned programme of investment. Some £5.5 billion is to be spent by 2015 upgrading London's Thameslink route; 1,300 new carriages will be ordered (mostly for use near London); and hundreds of millions of pounds are to go on improving capacity at overcrowded stations in Birmingham and Reading (for example, by lengthening platforms). The DfT wants capacity across the network to double over the next 30 years.

But it was not all good news for train-spotters. Grand plans for European-style double-decker trains were rejected as impractical, as were schemes for a high-speed rail route (run, in the wildest of dreams, on magnetic-levitation technology) connecting London to the north. A decision on Crossrail—a railway across London—was delayed once again.

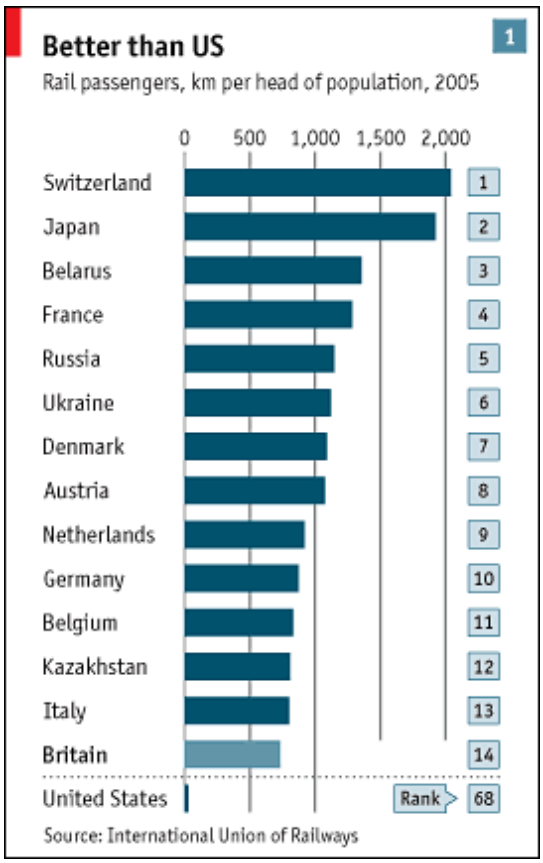
More controversial is how trains will be paid for in future. Rail subsidies have averaged £4.5 billion in recent years, with a similar amount coming from fares. The DfT proposes to shift some of the burden from taxpayers to ticket-holders, slashing its contribution to £3.2 billion a year by 2009 and hoping that a combination of more passengers and pricier tickets will boost fare revenue to £6.7 billion.

The change has been in the wind for months. Many train firms have won their franchises recently by making bold (some would say foolhardy) promises to cut the amount of public support they need. Passengers are already feeling the heat. Fares on all parts of the network have risen far faster than inflation. Some firms have been more creative. Alongside above-inflation fare increases, South West Trains has instructed its guards to show no mercy when issuing penalty fares to ticketless passengers, even if they have a good excuse.

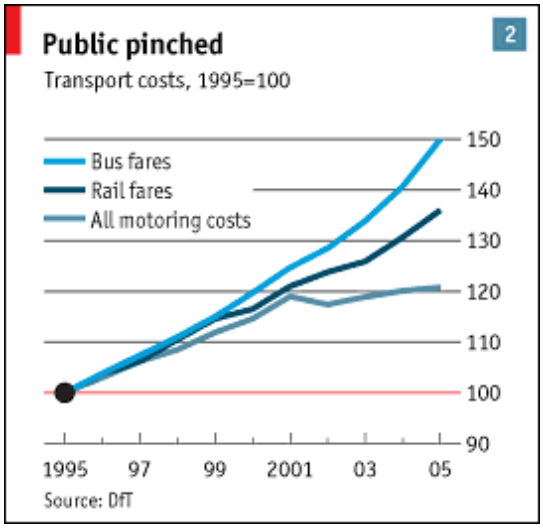
The white paper allows this to continue: firms are free to raise unregulated ticket prices (typically, those bought just before travel) as much as they want. It even leaves open the possibility of removing price caps on regulated fares, such as season tickets. Network Rail, which owns the track, is expected to cut its costs by a third.

It is hard to know what to make of the government's proposals without a firm notion of what the railways are meant to be for. Despite their relative unpopularity (see chart 1), Britain's trains are part of its national identity, particularly among the less reformed bits of the Labour Party. This reverence has hampered a serious discussion about what they should do. Some claim they provide a social service for the poor (although passengers are in fact overwhelmingly middle-class). Others such as Sir Rod Eddington, a former boss of British Airways and the author of a government-sponsored report on transport, focus on their impact on the economy, mainly as a means of moving large numbers of commuters in and out of cities. This week's paper seems more sympathetic to the latter view than the former.

Optimists take that to mean that the government is forming a clear idea of the railways' role.



Sadly, the rest of its transport policy remains contradictory. Under Labour the cost of rail travel has risen more than the cost of motoring (see chart 2), encouraging people to ignore advice about the virtues of rail and switch from trains to cars. Ministers have said they want to shake up road travel (through a national road-pricing scheme) and aviation (by forcing air travellers to bear the environmental costs of their trip). Both policies would have a big impact on the relative competitiveness of the railways, but there is little detailed discussion of this in the white paper. David Begg, a former boss of the Commission for Integrated Transport, argues that the government needs to look at pricing across the entire transport system: “until we do that, transport policy will never make sense.”



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Housing policy

Build more or else

Jul 26th 2007
From The Economist print edition

New plans are less ambitious than they seem but will still be hard to achieve

THE timing could hardly have been less propitious. A delay in publishing the Labour government's proposals for more housebuilding meant that they came out on July 23rd when the floods in central and southern England were at their worst. Not only did this deflect attention from the initiative; it also gave critics the chance to point out that many of the new homes envisaged would be built on flood plains.

The plan, drawn up by Yvette Cooper, the housing minister, sets out how the government intends to meet its new goal of 3m new homes in England by 2020. That may sound a lot but is in fact only around 250,000 more than previously planned. The government wants the homebuilding rate to rise to 240,000 a year by the middle of the next decade, compared with its previous target of 200,000. That higher rate will then continue until 2020.

Launching the proposals, Ms Cooper told MPs that “strong action” was essential because demand for housing was outstripping supply and making homes less affordable. The trouble is that potential demand keeps on rising. When the previous target for new homes was set, in December 2005, households were projected to increase by 190,000 a year until 2021. Since then the forecast has been revised upwards to 223,000 extra households a year until 2026. The government is running merely to stand still.

Even so, the new homebuilding target will be difficult to hit if Labour's disappointing record is anything to go by. The number of new homes put up each year since 1997, when Labour came to power, has been a tenth lower than in the previous decade.

The sluggish rate of housebuilding has been particularly surprising during so prolonged a house-price boom. Ms Cooper blames selfish nimbyists trying to deflect construction to other neighbourhoods and obstructionist planners. Her proposals seek both to cajole and to strong-arm local councils into releasing more land for development. Those that comply will be rewarded with additional funding. From 2008 a new grant will reward councils that are getting more houses built and identifying at least five years' worth of sites ready for development. Councils that drag their heels will be more likely to find rejected housing applications allowed on appeal.

Ms Cooper evidently also harbours suspicions about housebuilders, who are often accused of hoarding vast banks of undeveloped building sites. She told MPs that “we are consulting on proposals to deter developers from seeking planning permission and then sitting on land without bringing forward new homes.” Ministers have already reduced the period for which a planning permission remains valid from five to three years. They are now considering other measures that might make developers build more quickly.

The government can probably get its way, provided that it has read the politics correctly. Gordon Brown, the prime minister, thinks he has identified a “wedge issue” that is problematic for the Tories, whose local councillors and MPs cannot afford to fall out with those nasty nimbyists who constitute much of their electoral base. Nice Labour, by contrast, will be doing battle to make housing affordable.

But not all the objections to the proposal are in fact self-serving. Few would deny that Britain needs more homes, but they must go in the right places and be supported by adequate infrastructure. The government insists that greenbelts around cities will remain strongly protected, but some encroachment into their browner-edged bits might be preferable to building on flood plains. Above all, the history of previous top-down building drives does not bode well. Too many of the new homes turned into new slums and had to be demolished.

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Bagehot

The scissors and the stone

Jul 26th 2007
From The Economist print edition

Steve OBrien

David Cameron is down on his luck. Can he change it?

David Cameron

LIKE the rest of life, only more so, politics is not always fair. Not long ago, David Cameron's tail, and his poll numbers, were up, and expected to rise further after Gordon Brown's coronation. The ayatollahs of Blairism were fretting about how Mr Brown would hold up against the most talented Tory leader (as many Labour MPs, as well as Tories, then saw him) since Margaret Thatcher. A little month later, and the Tories are free-falling in the polls, having cocked up two by-elections. Mr Cameron this week found himself uncomfortably explaining why he was in Rwanda for a photo opportunity rather than at home, where his party was grumbling and his constituency flooded. His admirers protest that the reversal has been more the unfair result of bad luck than of poor leadership—and they are largely right.

Part of the unfairness lies in the bizarrely skewed nature of British political memory. Mr Cameron is still struggling with the reputation for a nuclear combination of sleaze and economic incompetence, callousness and greed that the Tories acquired in office more than ten years ago. Because of that radioactive legacy, Mr Cameron's team is still wary of espousing some erstwhile Tory principles, such as tax-cutting. Yet voters seem to have fallen for the flagrant confidence trick whereby Mr Brown has portrayed himself and his administration as a “new” government. The simple manoeuvre of replacing Labour's front man has achieved an improbable but widespread amnesia about its shortcomings; yet Mr Cameron is held obscurely accountable for mistakes made when he was scarcely out of short trousers.

He can consider himself unlucky, too, in the unpredictable vagaries of political chemistry. As prime minister, Mr Brown has many of the limitations that he evinced as chancellor, which were supposed to help Mr Cameron best him: he is a wearying speaker and cumbersome performer in the House of Commons, who tells lame jokes (though he managed a respectable one-liner this week about how “the wheels are going off the Tory bicycle”). But, partly because of the failed terrorist attacks, which let him look statesmanlike, and the floods, which stranded Mr Cameron on his unluckily scheduled visit to Africa, the public is liking Mr Brown more than it expected to. And it is appreciating Mr Cameron less than it expected to in comparison: like a pair of shiny scissors meeting a solid rock in a game of Paper, Scissors, Stone, Mr Cameron has unexpectedly looked like the wrong man to take on the prime minister, when in other circumstances he might have seemed the right one.

Then there is the misfortune Mr Cameron has to bear by virtue of the fact that the party he leads is the Conservative Party. Alongside the paranoiac discipline that Tony Blair eventually instilled in his New Labour, the Tories can still look like a fractious rabble. A few tough weeks, and a few have already started whispering. On July 25th, before the parliamentary recess, Mr Cameron defended his strategy and rallied

his MPs; even so, a surprising number of Tories have plainly yet to grasp that, to avoid a fourth successive defeat, Mr Cameron needs to refrain from saying some things that they would like him to, and sometimes say things that they would prefer he didn't. In other words, they still delude themselves that the path to power is to console the few thousand voters who have defected to hard-right parties, rather than the hundreds of thousands who shifted to Labour.

That run of bad luck has increased the salience of the most unfair rule in the British political game: that the prime minister chooses when to call a general election. His plans for constitutional reform aside, Mr Brown has been behaving less like a thwarted ideologue than a bare-knuckles campaigner. He has made a string of front-page announcements on small but totemic subjects—supercasinos (probably scrapped), cannabis (probably less tolerated)—that are cleverly designed both to distinguish him from his predecessor and to dispel the idea that he is a straightforward lefty. On July 25th, the same day that Mr Cameron rallied his backbenchers, Mr Brown had an interview in the *Sun* in which he promised to deport more foreign convicts, praised the heroism of ordinary Britons in the *Daily Mail* and announced new anti-terrorism powers: a shape-shifting hat-trick that even Mr Blair in his spinny pomp would have envied.

Mr Brown may simply be in a hurry to firm up his image while his honeymoon lasts—or, despite the logistical difficulties, he may be preparing to call an election early next year or even late in this one. If he did, he might catch Mr Cameron at an awkward stage in his own electoral cycle. Most of what has riled Conservatives, such as the renunciation of grammar schools and the Rwandan jaunt, has been intended to persuade voters of Mr Cameron's newness and niceness. But the Tory policies that are solidly different from Labour's are in fact mostly traditional: support for marriage; a referendum on Europe; English votes for English laws. The lesson of the last two elections is that, even if voters agree with the Tories on those issues, too many don't trust a leader who campaigns on them to run the country.

Buck up, Dave

All that may indeed be frightfully unfair on poor young Mr Cameron. But his slump has not been entirely due to bad luck. He was slower than Mr Brown to see how tired the country was of Mr Blair, and how little there was to gain by emulating him. And along with the discipline, he and his acolytes need to adopt New Labour's conviction that oppositions must win elections, rather than waiting for governments to lose them.

Before 1997 Labour had a poisonous reputation of its own to dispel; it managed to do so while, with a few symbolic pledges, conveying a sense of how a Labour government would differ from the Tory one. Mr Cameron needs to repeat that trick. Meanwhile, he is probably hoping that another of Mr Brown's old traits—his caution—keeps the election plans in check.

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Economist.com WORLD INTERNATIONAL

Dealing with disasters

Flood, famine and mobile phones

Jul 26th 2007
From The Economist print edition

Panos

Technology is transforming humanitarian relief—and shifting the balance of power between donors and recipients

“MY NAME is Mohammed Sokor, writing to you from Dagahaley refugee camp in Dadaab. Dear Sir, there is an alarming issue here. People are given too few kilograms of food. You must help.”

A crumpled note, delivered to a passing rock star-turned-philanthropist? No, Mr Sokor is a much sharper communicator than that. He texted this appeal from his own mobile phone to the mobiles of two United Nations officials, in London and Nairobi. He got the numbers by surfing at an internet café at the north Kenyan camp.

As Mr Sokor's bemused London recipient points out, two worlds were colliding. The age-old scourge of famine in the Horn of Africa had found a 21st-century response; and a familiar flow of authority, from rich donor to grateful recipient, had been reversed. It was also a sign that technology need not create a “digital divide”: it can work wonders in some of the world's remotest, most wretched places.

“Technology completely alters the way humanitarian work is done,” says Caroline Hurford of the World Food Programme (WFP), a United Nations body that is the single largest distributor of food aid. Once upon a time, when disaster struck, big agencies would roll up with grain, blankets and medicine and start handing them out. Victims would struggle to the relief camps, if they could. For aid workers (let alone recipients) there was no easy way to talk to head office.

Now, when an emergency occurs, the first people on the ground are often computer geeks, setting up telephone networks so other aid agencies can do their stuff. Donors keep track of supplies on spreadsheets and send each other SMS messages: this road has been attacked by bandits, that village cut off by floods. Transport agencies announce helicopter flights by e-mail. Aid providers can find out where exactly on an incoming ship their medical supplies are, saving hours hanging round the docks. Aid donors find it easier to locate the victims of disaster; and victims queue as eagerly for mobile-phone access as they do for food.

As a result, the organisation of aid is changing. On the ground, all big relief operations have communications centres where aid workers go to send e-mails, read the latest security updates and study satellite maps of the affected area. The UN's humanitarian-affairs office runs a portal called ReliefWeb, containing every map and document that might help aid donors; it got 3m hits a day after the Asian tsunami.

And aid agencies are reorganising themselves around the technology. Two UN agencies are in charge of ensuring communications work in disaster zones: UNICEF (the children's fund) does basic data transmission; the WFP does communications in insecure areas. Télécoms sans Frontières (TSF), a French voluntary agency (total staff: a dozen), goes in with the UN team that does the first needs-assessment in the hours after disaster strikes.

Even in the short life of TSF (which grew out of the Kosovo conflict in 1999) the technological landscape has been transformed. Satellite phones—often the only ones working right after a disaster—used to be clunky contraptions that could only transmit speech. In the past five years, transmission speeds have more than doubled, so that electronic data can flow easily. The traffic grows heavier all the time, in part because the ultimate backers of the aid agencies—be they governments or individuals—want efficiency and accountability, and think they can get both.

Disaster relief is basically a giant logistical operation. Today's emergency responders can no more dispense with mobile phones or electronically transmitted spreadsheets than a global courier company can. But unlike most couriers, aid donors operate amid chaos, with rapidly changing constraints (surges of people, outbreaks of disease, attacks by warlords). Mobile phones increase the flow of information, and the speed at which it can be processed, in a world where information used to be confused or absent. The chaos remains, but coping with it gets easier.

Better communications also favour information-sharing and co-ordination between agencies. In recent years, the problems of co-ordination have grown with the size and complexity of operations. The Asian tsunami hit 14 countries in Asia and Africa. At one point, 400 organisations were working in Aceh alone—“possibly 200 too many”, remarked Jan Egeland, then the UN's emergency-relief co-ordinator. Things like e-mail service and satellite links help to herd the cats. Donors drop into telecoms centres to send e-mails, but also to swap stories and gossip. This creates a new version of the office water-cooler. Toby Porter, emergencies director of Save the Children, adds that mobile phones can facilitate relations between aid agencies and local governments; this, in turn, makes it easier for charities to gain access to remote war zones.

The benefits of technology are not quite a one-way street. Equipment is expensive. It creates co-ordination problems of its own (because of different technical standards); to address them, a score of big NGOs set up a consortium called NetHope, which spreads the cost of satellite communications and internet links. And as Hugo Slim of the Centre for Humanitarian Dialogue points out, technology increases the flow of information not just to workers in the field, but to offices in New York or London; this may tempt bosses to micro-manage from afar—which can be disastrous.

Oisin Walton of Télécoms sans Frontières has a different worry: e-mail may supplant aid workers' conflict-avoidance skills; they may come to rely too much on e-mailed security warnings, and not enough on their instincts. And the Red Cross's Florian Westphal fears satellite or mobile phones will make warlords even more suspicious of aid workers; it is now harder to eavesdrop than it was when aid workers used open radio frequencies.

On balance, of course, technology is more of a boon than a problem, though the gains are uneven. Small NGOs will benefit most, since big NGOs and UN bodies already have decent information systems. Some sorts of technology have developed more than others: one big growth area is surveillance, broadly defined to include software that tracks supplies.

The benefits of easier surveillance are manifold. Take two cases: since the tsunami, Sri Lanka's largest telephone company has started an early-warning system which would send SMS messages to every mobile phone in an area at risk of flooding. And Amnesty International, the human-rights agency, is paying satellite-imaging firms to take aerial shots of Darfur and of parts of Zimbabwe. Amnesty used pictures of burned villages in the Sudanese region to prove that massacres had occurred, despite government denials. Images of Zimbabwe provided evidence for a lawsuit against President Robert Mugabe.

Surveillance technology also blurs the distinction between emergency and routine operations. The UN's Food and Agriculture Organisation draws vast detailed maps showing who is vulnerable to food shortages (“poverty mapping”). This same information can be used to map the areas affected in a more acute way by drought or famine. Similarly, the software that aid agencies use to track emergency medical supplies can help public-health officials gather routine information.

Télécoms sans Frontières took the data transmitter and laptops it had used to track food aid during a

famine in Niger in 2005 and adapted them to store facts about disease prevalence afterwards. Vodafone (a telecoms firm) and the UN Foundation (an American charity) run programmes in Kenya and Zambia that put information about disease and medicine on data banks for use by health ministries. In short, public-health information improves disaster response, and disaster response boosts public health. Surveillance technology is especially useful for spotting early-warning signals (by tracking the paths of locusts or hurricanes); so it helps more with “predictable” disasters than it does in cases (like earthquakes or tsunamis) where warning times are brief or non-existent.

Those ingenious victims

While the joys of gadgetry may seem obvious to aid workers, how much has it really done to help victims? The full answer to that question has yet to emerge, and it is aid recipients who will give it. The Tsunami Evaluation Coalition, a group of agencies bent on learning from past mistakes, notes that “local people themselves provided almost all immediate life-saving action and the early-emergency support, as is commonly the case in disasters.”

As the example of Mr Sokor shows, people affected by catastrophe are not necessarily helpless or hapless. Their ingenuity is likely to change disaster response by rich-world donors in unexpected ways.

Already, mobile telephony is transforming the landscape. The World Bank says the number of mobile-phone subscribers in sub-Saharan Africa increased sevenfold between 2000 and 2006. India nearly doubled its mobile-phone subscriptions last year to 150m and the government expects 500m (mobile and land lines) by 2010. Natural and man-made disasters do not only strike rural areas; nearly a billion city dwellers (who use mobiles more) are vulnerable to disaster.

In several recent disaster zones, victims surprised their benefactors by asking not for food or medicine but money. Save the Children, at least, has responded: it has been handing out cash in addition to food in the Horn of Africa and South Asia, and it says UN agencies should do the same.

Aid agencies are also using technology to meet the victims' other key demand: contact with relatives. People in safe places who are worried about missing cousins, and victims who are in desperate need of support from the extended family, can make use of websites whose purpose is to reunite friends and relatives. A Red Cross website (familylinks.icrc.org) has details of 125,000 families.

More broadly, technology increases the role of extended families, migrants and diasporas in dealing with disaster. To take a small example, members of Zimbabwe's diaspora living in Britain can go to a website called mukuru.com, order and pay for goods such as petrol online—and have them delivered to family members back home. The operation depends not only on the internet but also on mobile phones, because when an order is made the recipient gets a code texted to his mobile, which he must show to the petrol station when he collects the goods. Other websites enable members of the diaspora to provide loved ones with a range of goods and services from food to mobile-phone credits.

As yet, such operations have made only a small dent in Zimbabwe's unfolding crisis. Mukuru, run from a flat in Clapham in south London, has about 10,000 clients. A drop in the ocean: the WFP reckons it will have to feed as many as 4m Zimbabweans by next April.

But the websites are expanding fast; mukuru plans to open in half a dozen African countries this year. And the possibilities for using mobile telecoms to help relatives are enormous. Family remittances are already a bigger source of transfers to poor countries than government aid. Mobile telephony and mobile-phone banking are spreading. As these trends converge, diasporas will move even closer to centre stage in the delivery of succour to the needy.

In any case, technology's effect on humanitarian relief is only starting to be felt. “In the humanitarian operation of the future,” says Save the Children's Mr Porter, “beneficiaries of emergency aid will use technology to tell us what they need—cash, food, or education—find out from us what to expect, and track its arrival, just as we can track an order from Amazon.com now.”

And it may all happen sooner than aid agencies expect. As Mr Sokor's case shows, victims' thinking often moves faster than their benefactors' does. Following his appeal, the WFP did boost rations in the Dagahaley refugee camp, albeit citing other reasons. That blunt text message may be a harbinger of things to come.

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America and the UN

A matter of honour

Jul 26th 2007 | NEW YORK
From The Economist print edition

A row over the UN's record in North Korea gets very close and personal, to everyone's detriment

RELATIONS between the United States and the United Nations seemed to be mending when Zalmay Khalilzad, a veteran of diplomacy in very hot spots (first his native Afghanistan, then Iraq), took over in April as America's envoy to the world body.

AFP

Melkert: a Dutchman flies into a storm

Having guided Afghanistan towards democracy and struggled with tribal and sectarian politics in Iraq, Mr Khalilzad was viewed as a wily conciliator, epitomising a more flexible American policy: one that looked for consensus on how to deal with tricky problems. More than his abrasive predecessor, John Bolton, he accepted that the UN could do some useful things.

All the stranger, then, that the mood in American-UN relations has in recent weeks been darkening again. Behind the latest row are American complaints that the United Nations Development Programme (UNDP) broke its own rules by disbursing Western currency to North Korean citizens—and possibly abetted the Pyongyang government's military ambitions—as it administered agricultural projects worth $2m a year.

Both America and the UN proclaim identical goals: full disclosure of any malpractice that may have occurred, avoidably or otherwise; and suitable corrective action, in the event that the regime in Pyongyang lets the agency (which was forced to leave in March) resume its work.

It is not only on New York's East River that emotions are running high. An Albanian ex-manager of UNDP operations in Pyongyang, Artjon Shkurtaj, claims to have been victimised after blowing the whistle on abuses. In Tirana, where denouncers of sleaze are a rareish breed, he has been hailed as a hero. The Dutch press, meanwhile, sees an American “smear campaign” against a countryman even nearer the heart of the affair: Ad Melkert, the UNDP's second-ranking official and (significantly, many say) an ex-chairman of the World Bank's ethics committee. (In the probe which led to the downfall of Paul Wolfowitz as head of the World Bank, Mr Melkert's evidence was crucial: he said he did tell Mr Wolfowitz to move his girlfriend, Shaha Riza, out of the Bank, but denied endorsing the very sweet terms.)

American and UN officials all say they want to know what went wrong in Pyongyang, and how to correct it. The bare facts—that payments were made in hard currency, and that North Korean conditions make this hard to avoid—are not in doubt. So why don't they work together? That is a harder question. Wherever the problem lies, it does not seem to reflect bad chemistry between Mr Khalilzad and the head of the UNDP, Kemal Dervis, an eminent Turkish economist who oversaw his country's financial recovery. The two men respect each other. And till recently, the Bush administration liked the UNDP. Last year it

praised the agency for being “supportive of US strategic interests in democracy, prosperity and security”.

But these days UNDP staff feel under siege. They complain that American officials have fed copious details of their agency's alleged misdeeds in North Korea to the press, to Congress and to other UN missions—while those same officials have made it hard for the UNDP to defend or correct itself, by refusing to give the agency any incriminating documents that detail what it is supposed to have done wrong. American officials say the UNDP has engaged in a cover-up; UNDP officials retort that the Americans won't tell them what sort of thing they are allegedly hiding.

If their aim was to blacken the UNDP, then leaks to American newspapers and to Republicans in Congress have had the desired effect. Headlines like “dollars for dictators” duly appeared, and Republican legislators denounced the UNDP for hiding its misdeeds and “firing” Mr Shkurtaj. David Morrison, the UNDP's spokesman, replies that Mr Shkurtaj's contract simply expired in March; Mr Shkurtaj says “Morrison doesn't know shit” and insists he could have worked until 2008 if he had not spoken up for moral rectitude.

Mr Shkurtaj says he spoke out after being shocked by the discovery of $3,500 in counterfeit American bills, sitting in the UNDP safe in Pyongyang. The UNDP says the money was handed in by an Egyptian consultant in 1995, and forgotten: an oversight, yes, but hardly an appalling scandal.

Some Europeans at the UN are unimpressed by the charge sheet against the UNDP which the American mission has circulated; their governments quietly made up a $20m grant to the UNDP which America's Congress withdrew after being briefed by Mike Wallace, the Bush administration's point man on UN reform.

Whatever lies behind them, certain items on the charge sheet look serious. American officials say they have evidence of around $15m in UN money being misused by North Korea between 2001 and 2005; this allegedly included $7m used to buy property in Britain, France and Canada. They also claim the UNDP was duped into providing computer equipment that could be used for a nuclear programme, without first seeking an export licence as had been done in 1999. UNDP officials say the most sophisticated thing they provided was crop-forecasting equipment.

To Europeans, it looks as if some Americans' main motive is personal: to punish Mr Melkert for betraying Mr Wolfowitz. But it would be sad if settling scores were the decisive factor in the outcome of a dispute where real issues are at stake, like the need to scrutinise the way all Western agencies do business with dictators.

Perhaps those two eastern sophisticates, Mr Dervis and Mr Khalilzad, should cut through the squabbling and sort the matter out. The honour in which both men are held would only grow.

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Outsourcing

External affairs

Jul 26th 2007
From The Economist print edition

Claudio Munoz

Old assumptions are being challenged as the outsourcing industry matures

AT THE start of the decade anecdotes began to circulate about the perils of sending white-collar work abroad. One apocryphal tale centred on Indian workers who had been given the job of keying the results of the latest British census into a database. The work was done quickly. Everyone was satisfied until the entries were reviewed and it emerged that the most common surname in Britain was “Ditto”. But the initial amusement about offshoring soon gave way to fear. The threat that cheap labour in India and other low-wage countries posed to costlier workers in the developed world was a central theme of America's 2004 presidential campaign.

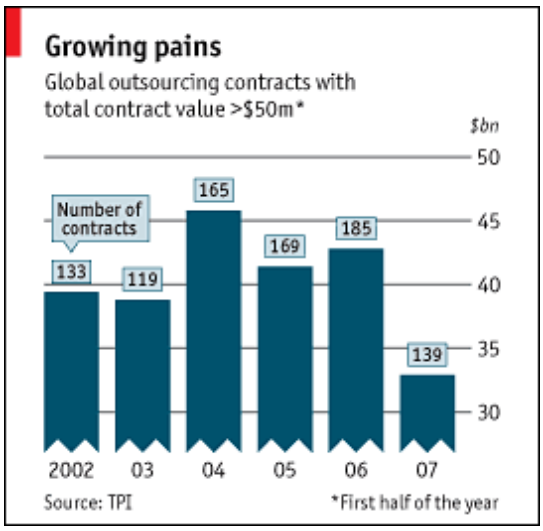
Three years on the politics of offshoring are still childish: last month a leaked memo from Barack Obama's research staff referred to the Illinois senator's main rival for the Democratic nomination as “Hillary Clinton (D-Punjab)”. Yet the outsourcing industry, the conduit for much offshored work, is maturing. (Outsourcing refers to work contracted to an outside firm; offshoring is the shift of work abroad.) And as it grows up, it is changing in many ways.

For a start, the industry is growing less rapidly than before. Offshore work is a component of most outsourcing contracts, but jobs no longer flow only from richer countries to poorer ones. Cost savings are still the principal motivation to outsource, but performance is becoming the main battleground between providers. Even the language is changing. Vendors refer to themselves as partners. Labour arbitrage is out; “intellectual arbitrage” is in. Some even recoil from the word “outsourcing” itself. “It gives the impression of just throwing something over the wall,” says Ross Perot Jr, chairman of Perot Systems, a computer-services firm based in Plano, Texas.

Start with the numbers. The latest quarterly report on the state of global outsourcing from TPI, a consultancy, was published earlier this month. It showed that both the number and value of contracts awarded during the first half of this year had declined in comparison with the same period in 2006. In 2007 the total value of contracts awarded in the first six months was the lowest since 2001 (see chart).

Critics argue that the TPI numbers understate levels of activity. They do not include public-sector deals, deals worth less than $50m or contracts renewed without the use of an adviser, of which there are an increasing number as relationships between customers and suppliers deepen. Some parts of the industry are also much bubblier than others: demand in Europe is robust, for example. “We're not in the land of scarcity,” says Kevin

Campbell, who runs Accenture's outsourcing business. According to Ian Marriott of Gartner, a market-research firm, the industry has settled into a pattern of single-digit growth.



As growth slows it is clear that making money is becoming more difficult for outsourcing firms. Competing on price is getting ever harder. Established vendors are hiring workers in the same low-cost locations as their offshore rivals—the likes of Accenture and IBM have been furiously ramping up their operations in India, for example. One response is to keep searching for ever-cheaper locations, both within India and outside it, but a race to the bottom on price threatens both the quality of service and profit margins. For the top-tier providers, the way to stand apart from the crowd is to deliver more valuable services.

In part that means moving into more sophisticated areas of activity. As well as managing clinical-trial data for pharmaceutical clients, for example, Accenture is starting to monitor people's reactions to drugs. Xansa, a British service provider, not only processes expenses for its clients but also analyses the numbers to help them spot anomalies. And it is working on a way to manage absenteeism among clients' employees by having a nurse call people at home after they have been off sick for a couple of days.

All this has the effect of making consulting and industry expertise a more important part of providers' armoury. It also leads to changes in the way that outsourcing firms are measured. Jean-Hervé Jenn of Convergys, a provider of back-office services, points to a shift in call-centre outsourcing contracts away from quantitative metrics, such as the duration of calls, towards more qualitative measures based on customer satisfaction. (Despite popular perceptions, that does not mean an end to offshore call-centres. According to Mr Jenn, when technical knowledge counts for more than familiar accents, it may still be better to send calls to overseas agents.)

The industry's reward systems are also under scrutiny. Traditional pricing models have been based on a mark-up over the cost of labour (which is a risk to the client) or on a fixed cost for delivering the service (which is a risk to the vendor, particularly given rising wages and stronger currencies in many emerging markets). But attention is gradually shifting to “gains-sharing” arrangements, whereby outsourcing firms and customers both benefit from performance improvements. Neeraj Bhargava, boss of WNS, an Indian provider that started life as a unit of British Airways, points to the example of vendors being able to recover debts that are too small for big companies to collect efficiently on their own. A share of the extra revenue recovered can go straight to the vendor.

Outsourcing firms are moving into more countries in order to deliver the right mix of cost, risk and quality. As Western providers concentrate on beefing up their presence in low-wage centres, Indian vendors are focusing on the markets where the buying decisions are made. Physical and cultural proximity is important for building closer client relationships, for delivering certain types of services (such as unscripted selling) and for soothing concerns about data security and confidentiality. Hiring locals also has the effect of cutting down on visa hassles.

Wipro, one of the big three Indian providers (along with Infosys and Tata Consultancy Services), is close to reaching an agreement with the authorities in Atlanta, Georgia, to set up its first software-development centre in America. The three other cities shortlisted during the selection process—Austin, Texas; Raleigh, North Carolina; and Richmond, Virginia—stand a good chance of hosting other centres. Azim Premji, Wipro's chairman, says that the proportion of local employees (as opposed to visiting Indians) in the company's overseas locations will rise from 10% to one-third over the next three years.

Few providers expect the topic of offshoring to lose its political sting—despite plenty of evidence, including a recent OECD report on the subject, showing that it is not a big cause of job losses and has an overall positive effect. But the maturing of the outsourcing industry ought to mean that scaremongering about jobs flowing from rich countries to poor ones will sound less and less convincing.

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Ford

A costly distraction

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From The Economist print edition

Ford is selling off its premium brands. Who will buy them?

WHEN Jacques Nasser, Ford's boss in the late 1990s, bought two premium European car brands, he had high hopes for his new luxury-car division, which came to be known as the Premier Automotive Group (PAG). By 2005, the firm predicted, Aston Martin, Jaguar, Land Rover and Volvo would sell 1m cars a year, earn more than $1 billion annually and account for about one-third of Ford's profits. But eight years on the PAG is consistently losing money and sells about one-third fewer cars than predicted—and Ford itself is haunted by the spectre of bankruptcy.

After some initial hesitation Alan Mulally, the chief executive brought in from Boeing last September, decided to put bits of the PAG on the block. In March he sold Aston Martin for $848m, and in June he appointed three banks to field potential buyers for Land Rover and Jaguar. The bidding period ended on July 19th with an unexpectedly high number of potential suitors, thought to include Cerberus Capital Management (the private-equity group that bought Chrysler in May), TPG Capital, Ripplewood Holdings and One Equity Partners (a private-equity firm where Mr Nasser now works), along with India's Tata Motors and the Mahindra Group.

Ford is also considering a sale of Volvo, a Swedish maker of premium cars, and the most valuable and profitable bit of the PAG. Last year Volvo is believed to have made a profit, though the PAG as a whole lost $2.3 billion. (Ford does not break out details of the division's financial results.) But although selling Jaguar and Land Rover would make sense, it is less clear that the same is true of Volvo, says Jonathan Steinmetz, an analyst at Morgan Stanley, an investment bank. Volvo is more integrated into Ford than the two other brands, with several Ford and Volvo vehicles sharing chassis designs and parts. Volvo is also far bigger by units sold—it accounted for 7% of sales in 2006, compared with 3% for Land Rover and 1% for Jaguar—which helps to spread development costs.

But Gerald Meyers, a former chairman of the American Motors Corporation, a carmaker bought by Chrysler, thinks Ford should sell all of the PAG and get what cash it can. Since Ford is in the middle of a multi-year turnaround plan, any distraction from rescuing its core American business is counterproductive, he argues. (In a sign that the plan might at last be working, Ford announced a surprise profit of $750m for the second quarter on July 26th.)

BMW of Germany is one possible bidder for Volvo. BMW says it is keeping its eyes open for takeover targets, though it has had its fingers burnt by acquisitions in the past. Volvo and BMW are compatible premium brands, says Marc-René Tonn, an analyst at MM Warburg, an investment bank in Hamburg. But they do not fit technically: Volvos rely on front-wheel drive, BMWs on rear-wheel drive. Renault would be a more logical buyer, says Thierry Huon at Exane, a brokerage in Paris. Renault needs a premium brand, having failed to build one itself. And the Renault and Volvo brands, with their common emphasis on safety, fit together well.

Another possible buyer is Volvo Group, the lorry-making parent firm that sold its car unit to Ford in 1999. This would reunite the two divisions, but there are no synergies between carmaking and lorry-making, which is why the cars were spun off. It is more likely that Renault will sell its 21% stake in Volvo Group to help finance its purchase of the carmaker.

Estimates of the proceeds from a sale of the PAG range from $8 billion to $16 billion. Ford could invest the money in its remaining brands—Ford, Lincoln, Mercury and Mazda—or in product development. But it would probably be wisest to restructure its health-care liabilities, which it is currently discussing with the United Auto Workers (UAW), the car industry's main union. Mr Mulally is pressing the UAW to set up a union-managed trust that would enable Ford to take tens of billions of dollars of retiree health-care liabilities off its balance sheet. Such a trust would need to be funded up front—so cash from the sale of the PAG would come in handy.

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Car parts

Bulking up

Jul 26th 2007 | FRANKFURT
From The Economist print edition

Siemens decides what to do with its car-parts division

THE eyes of corporate Germany were on Siemens' headquarters in Munich on July 25th, and not for the first time this year. The attraction this time was not another twist in the long-running corporate scandal at Europe's biggest engineering group, but the eagerly awaited decision on the sale of Siemens VDO, its successful automotive division. Siemens' original preference was for an initial public offering (IPO) which might have valued VDO at around €7.5 billion ($10.4 billion). But such was the interest from outright buyers—Continental of Germany and TRW, an American partsmaker—that Siemens realised the division could fetch much more.

Such interest is easily explained. Europe's big car-parts suppliers are enjoying a boom. Unlike smaller firms they have been able to resist the downward pressure on prices exerted by the big carmakers. But even Continental and TRW need to add bulk to compete with rivals such as Germany's Bosch and Denso of Japan. Siemens VDO is a leading maker of products such as navigation units and diesel-injection systems.

EPA

Löscher weighs up the options

TRW, with sales of $13 billion and a BB+ credit rating, would have been too puny to be considered a buyer on its own. But its largest shareholder, with a 57% stake, is Blackstone, a private-equity firm with deep pockets. TRW/Blackstone put in bid of close to €12 billion for VDO, according to unofficial reports. Concerns that private-equity buyers (known as “locusts” in Germany) would sack lots of workers were allayed by undertakings from TRW that it would make few job cuts in Germany. That won over Ralf Heckmann, the top workers' representative at Siemens who had favoured an IPO, to the idea of a sale.

Continental, the home contender, had several factors in its favour. Its product range is compatible with Siemens VDO's. The firm prospered in tough markets earlier this decade by cutting costs and moving some manufacturing abroad. Manfred Wennemer, Continental's combative chief executive, is capable of making a merger work. He is not loved by the unions, but his argument that a stronger firm ultimately creates more jobs has been largely vindicated. And he has the support of Christian Wulff, the prime minister of Lower Saxony, whose interest is to preserve jobs and promote a national champion.

Whether that sentiment cut much ice at Siemens is unclear. But politics was surely a factor in the decision. Siemens' reputation has taken a battering recently. Peter Löscher, its squeaky-clean chief executive who started in early July, had a difficult decision. Should he go for the highest bidder and please his shareholders, or take into account other considerations such as the flow of future contracts from the German government, labour relations, and softer feel-good factors? In the end Siemens' supervisory board went for the home option and decided to accept Continental's bid of €11.4 billion, subject to approval by the antitrust authorities.

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Japanese companies in China

Questioning the Middle Kingdom

Jul 26th 2007 | TOKYO
From The Economist print edition

As Japanese firms move into China, some are having second thoughts

Get article background

WHEN China's tallest skyscraper is completed next spring it will symbolise both the country's economic might and the importance of its ties with Japan. Over a decade in the making, the 101-storey Shanghai World Financial Centre is being built by Mori, a Japanese developer. The $1.1 billion construction project is perhaps the most visible sign of how deeply rooted Japanese firms are in China. They were among the first to move in when China opened its doors 30 years ago. Today Japan is the third-biggest source of foreign direct investment after Hong Kong and the Virgin Islands, a tax haven. Mainland China recently surpassed America as Japan's largest trading partner.

But the appeal of China as a manufacturing hub and a huge new market is not universally shared among Japanese businesses. Some companies are moving operations to other countries instead, and others are keeping business back home. Japanese companies poured $4.5 billion into China in 2006—a 30% drop from the $6.5 billion invested in 2005, according to China's Ministry of Commerce.

Japanese electronics firms all have operations in China, for example, but mostly for low-end assembly work rather than high-end production. The reason has little to do with protecting the jobs of Japanese workers (most of whom are actually part-time staff who lack the generous perks provided to full-timers). Instead, it is to prevent intellectual-property theft and boost innovation by keeping development and manufacturing close together—at home.

As competitiveness increasingly comes from manufacturing efficiency and more intellectual property is applied to the production process, it makes sense to keep operations at home. Besides, sophisticated manufacturing tends to be less labour-intensive, reducing the appeal of low-wage countries. And regional governments are offering generous incentives for firms to open new factories in Japan.

Ricoh, an office-equipment company, makes low-tech parts in China but keeps advanced technology in Japan. This month Canon said it would build a $450m optical-sensor factory in Japan. Sharp's sophisticated LCD flat-panel televisions are made at two factories in central Japan, and the company will announce plans for a new factory in Japan this summer.

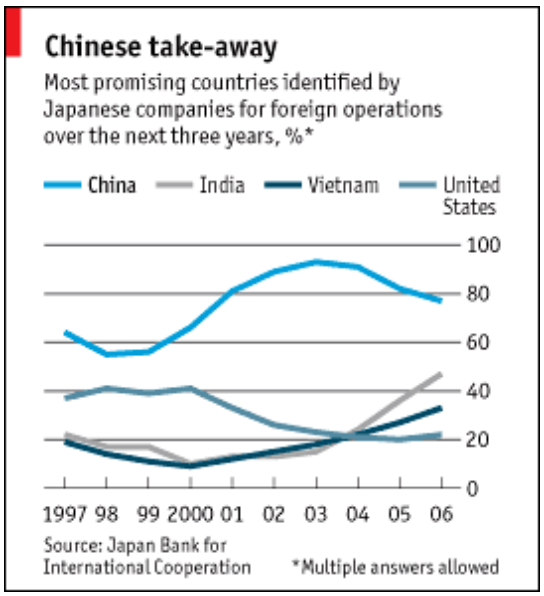
As for carmakers, Toyota, Honda and Nissan have built big factories in Guangzhou to build vehicles for Chinese customers. But because of the weak yen, which makes exports cheaper, car firms are building more vehicles at home. Honda is even opening a new factory in Japan, its first in almost 30 years, despite falling domestic sales. Likewise, Toyota says it plans to build more cars in Japan for export.

Even for Japanese firms that are investing overseas, surveys show a shift away from China in favour of other Asian countries. In 2004 around 86% of Japanese firms planned to expand in China; last year the figure dropped to 77%, and 2% said they were actually scaling back their Chinese operations. In another survey, which asked Japanese firms to rate which countries they regarded as the best places to invest in the next three years, the proportion opting for China dropped from 91% in 2004 to 77% last year, while the appeal of Vietnam and India rose substantially (see chart). This is partly because China has become expensive compared with elsewhere in Asia. There is also concern over anti-Japanese sentiment.

Yet part of the problem for Japanese firms is that their business practices do not work well in China. Managers are invariably

Japanese and are promoted on the basis of seniority rather than merit, so prospects for local staff are poor. (Chinese executives joke that if you want to learn about communism, work for a Japanese firm.) Worse, Japanese companies are used to dealing with a few long-standing partners. Mori's Yoshimitsu Isoi says his firm found it hard to put everything into a written contract in China, rather than relying on verbal agreements as in Japan.

As for the Shanghai building itself, a giant circular opening at the top had to be changed to a rectangle in 2005 after the Chinese public objected that it looked like the rising sun of Japan's imperial flag. The reality, however, is that Japanese firms are starting to look elsewhere.



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China's new labour law

Red flag

Jul 26th 2007 | HONG KONG
From The Economist print edition

Businesses in China seem not to have noticed that they face tough new rules

Get article background

FOR the 2008 Olympics in Beijing, big foreign companies are planning to add swarms of temporary employees. They had better think again. A sweeping new labour law passed on June 29th intended to enhance workers' rights makes this and many other common practices illegal. The change has received little notice so far, possibly because it does not go into effect until January 1st 2008; possibly because firms do not realise that retroactive provisions in the law mean it has already begun to apply; but probably because companies do not realise how much the Chinese government is willing to change the legal standing of workers to advance the political mantra of a more “harmonious society”.

The new law replaces one put into place in 1995, when early efforts at economic reform in southern China were bearing fruit and the country was eager to attract foreign companies. Since then China has emerged as an attractive manufacturing base, but concerns have grown over poor labour conditions. Hence the new law that, on its face at least, dramatically changes the balance of power between workers and employers, says Lesli Ligorner, a lawyer in Beijing with Paul Hastings, a big law firm.

Companies will need written contracts with all full-time employees, and anyone who works for more than four hours a day is likely to be considered a full-time employee. Once they are full-time, employees who are laid off must be bought out at a multiple of their average monthly salary. Making more than 20 employees or 10% of the workforce redundant is allowed, but must be done on the basis of seniority not merit.

China's trade unions could be transformed by the law. Previously they focused on social welfare; now they will be able to act more like Western trade unions, weighing in on discipline, safety, remuneration and working hours. The new law also grants them the right to litigate.

If that did not give companies enough to think about, businesses will also have to cope with a law that is full of inconsistencies. It does not, for example, apply to foreign representative offices, yet since these offices must hire their workers through official staffing agencies, it will apply to their employees. Worse, since foreign firms cannot hire directly, they are required to offer the kind of short-term contracts the new law bars. And although the new law should standardise practices throughout the country, it will inevitably be interpreted differently in every region.

Perhaps the best aspect of the new law is that it provides protection for people on the bottom rung of the ladder. That is good news not only for workers, but also for firms with high (or at least modest) standards which put them at a competitive disadvantage to more ruthless operators. But the law also imposes burdens on companies, and so increases the incentive to bribe corrupt officials to look the other way.

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Cultural filtering

The flavour of cool

Jul 26th 2007
From The Economist print edition

Can e-mail newsletters recommending cultural events in the world's big cities maintain their credibility as they grow?

THIS Monday in New York, those so inclined could have toured Brooklyn's pizzerias, sweated to “outer-planetary” dub or attended a modern recasting of “Eurydice”. But which was worth your time? Deciding what to do in any big city can be difficult, making it tempting to stay in and catch up on e-mail instead. But that might in fact be the answer. Two companies—Flavorpill in America and le cool in Europe, acting separately—publish free, weekly e-mails that narrow the torrent down to the two dozen very best events.

There are plenty of places to look for reviews and recommendations, but they can be unreliable or prone to manipulation. And they do little to address the problem of volume: Time Out New York, a listings magazine, listed nearly 500 options for Monday alone. That is why Flavorpill and le cool have opted to provide “filtered cultural stimuli”, as Sascha Lewis, one of Flavorpill's founders, puts it. A stable of unpaid contributors selects events and writes recommendations. Part-time staff editors then assemble the listings. “It's about understanding quality within genres, not about specific genres,” says Lisa Hix, the editor of Flavorpill San Francisco. The result is an eclectic, catholic style that, its editors believe, does its best to distil excellence from cultural chaos.

Subscribers would appear to agree. Mr Lewis started Flavorpill informally in the wake of the failure, in 2000, of a dotcom start-up. It has since accumulated 560,000 subscribers across 11 weekly publications, including editions in six cities. New York, at 85,000, is the largest. For its part, le cool was founded in 2003 after René Lönngren, who was working in advertising at the time, encountered Flavorpill on a trip to New York. Based in Barcelona, it now reaches 110,000 readers in eight cities. For now, the two overlap only in London.

Flavorpill San Francisco recently recommended a play in which the audience works with a cast of “homeless and disabled individuals”, a collection of carnivorous plants and a musical that “channels the drama of suburban ennui and teen angst into lively song”. Any of these could be dismal. Yet the reviewers manage to find events that appeal to young, culturally influential urban dwellers.

Such people are highly attuned to the inauthenticity of culture manufactured in the pursuit of sales, so both Flavorpill and le cool say they are careful to separate advertising from editorial material, and to avoid promotional events. “Our readers can smell PR,” says Ms Hix. But Mr Lewis says that by selecting events that conform to the ineffable tastes of his audience, he has been able to aggregate this elusive group in a form that is attractive to advertisers. Advertisements from the likes of Budweiser, JetBlue and Nokia provide the bulk of Flavorpill's revenues.

The companies' operations are marked by a commendable looseness—nobody in le cool's head office, for example, can read the Istanbul edition, which is in Turkish. This means that advertisers must put an unaccustomed level of trust in the process, and have the stomach to place their brands in unpredictable contexts.

Flavorpill's London list recently described a performance “that re-enacts Prince William's conception with the help of two actors wearing cardboard boxes depicting Charles and Diana on their heads” and involved a live, on-stage sex act. Is this really an effective new way to sell beer? “We believe in what they're doing,” says Rudy Beltran, director of Budweiser Select, an American beer brand that is one of Flavorpill's biggest advertisers. Flavorpill, he says, lends his brand credibility among young professionals who guide the tastes of their peers.

With low overheads, limited marginal costs and eager advertisers, both companies have been able to expand without significant outside investment. Le cool's Spanish revenues could support the entire company, says Andrew Losowsky, le cool's editorial director, and advance advertising sales meant the London list was profitable months before it launched at the start of this year. Mr Lewis expects Flavorpill's

revenues to be $4.2m in this, its fourth profitable year. Both companies plan editions in more cities soon.

It would seem a calculated risk, depending as it does on the continued enthusiasm of volunteers. There is also a danger that overexposure could damage the firms' underground credentials. But both are forging ahead: le cool has started publishing city guidebooks and produces an in-flight magazine for Vueling, a Spanish low-cost airline. Flavorpill now organises events and produces branded e-mails for corporate clients. They started out as mailing lists, but both firms are acquiring the flavour of media companies.

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Tasers

Sparky performance

Jul 26th 2007 | SCOTTSDALE, ARIZONA
From The Economist print edition

The leading maker of stun guns is back on target

BEING zapped with a Taser is not a pleasant experience. But visit the headquarters of Taser International in Scottsdale, Arizona, and you will find that the device can also produce a feeling of euphoria—among the employees of the firm that makes it, at least. A new model for consumers has just gone on sale, military orders are up, the share price is soaring and on July 23rd the firm announced record quarterly revenues. “We're having a good week,” says Tom Smith, Taser's chairman and co-founder.

It is, you might say, a stunning turnaround. Two years ago the firm was in deep trouble. Human-rights groups such as the American Civil Liberties Union (ACLU) and Amnesty International have long charged that Tasers, which incapacitate people by sending a 50,000-volt shock through two barbed darts, can kill. The ACLU links the devices with 265 deaths and Amnesty wants them banned. The firm's share price fell 77% in 2005 after the Securities and Exchange Commission launched an investigation into the safety of its products, though that probe ended in 2006 without any charges. Last year the company lost $4m.

AP

Now aimed at the mass market

But now things look very different. Taser's share price has more than doubled this year, and sales in the second quarter were $25.9m, up from $16.2m in the same period last year. Around 11,000 American police departments now use Tasers. Police forces in 44 countries around the world are using or testing them, usually buying 3,000 units for evaluation purposes and then ordering more if things go well. International sales now account for 21% of the total. The American military has just ordered 2,400 Taser X26s. And the firm is moving into the consumer market with the new C2 Personal Protector. Matthew McKay, an analyst at Jefferies, an investment bank, thinks it will sell well. Other analysts predict profits of $13m this year.

Taser's legal problems have not gone away. But although 50 court cases are outstanding, 52 wrongful-death or injury cases have been dismissed or won so far. The firm has beefed up its legal team and has yet to lose in court. The negative publicity continues: this month an estate-agent in Colorado died after being tased, and a policeman in Dallas was accidentally tased by his girlfriend, who mistook the device for a torch in the dark. Mark Silverstein of the ACLU's Colorado branch warns that as Tasers become more widespread—the C2 will be sold in sports stores—abuse by criminals and fatalities can only increase.

But Mr Smith is unfazed. His firm does more than gunmakers do to prevent misuse, he says; buyers of the C2 must pass a background check, and there are other security measures, too. Tasers, he insists, are meant to save lives. “There were 1.4m crimes in the US last year,” he says. “We're trying to stop them.”

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Face value

Tested mettle

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Anil Agarwal has built a mining and metals giant in less than a decade

Illustrations

AS HE looks out over Mumbai's main airport, where a queue of planes wait their turn to ascend into the leaden monsoon sky, Anil Agarwal describes the transformation he has watched through his office window. In three years, he says, “the number of planes has grown four times—can you imagine?” Many Indian-based companies have experienced galloping growth in recent years, airlines among them. But few have kept pace with Mr Agarwal's Vedanta Resources, a London-listed mining and metals group, of which he is the chairman, founder and, with his family, owner of a 54% stake.

When Mr Agarwal founded the company in 1979 he was a scrap-metal merchant with ambitions to own a cable-making company. By the early 1990s, when India embarked on the liberal reforms that were to enable him to make his fortune, he was battling to establish a modest copper smelter. But in the past two years the market capitalisation of Vedanta—named after Mr Agarwal's mother—has increased fivefold to $10 billion. Last month 20% of the group's flagship company, Sterlite Industries, one of India's biggest producers of zinc, copper and aluminium, was floated on the New York Stock Exchange for over $2 billion—the biggest overseas sale of shares by an Indian company. Last year Vedanta turned over $6.5 billion, an increase of 76% on the previous year, and nearly half of it profit.

High metal prices, driven in part by India's own rapid growth, help explain the surge. But so do Mr Agarwal's instincts for his market: Vedanta's float in London in 2003 proved to be brilliantly timed. He has been equally adept at turning around a series of unprofitable, formerly state-owned companies. The group encountered little competition when it bid for a controlling stake in Hindustan Zinc, a loss-making state-owned firm, in 2002. It proceeded to cut its costs in half and increase its capacity fivefold. Hindustan Zinc is now the group's most profitable unit and the lowest-cost zinc producer in the world. With such a record, Mr Agarwal laughs at the prospect of lower prices. “Everyone's going to die,” he says. “But we must die last.”

In an industry in which size matters, he is pushing ahead with Vedanta's expansion. The group plans to invest $8 billion in the next three years to consolidate existing ventures and launch new ones. In April he extended his reach into iron ore by acquiring 51% of Sesa Goa, India's largest iron-ore exporter. The group also has ambitions in power generation, arguably the biggest constraint on India's growth. It has proposed building a $1.9 billion power station in Orissa, where it is also awaiting approval for a vast greenfield bauxite mine. Despite big investments in Australia, Zambia and elsewhere, India is where Mr Agarwal sees the group's greatest potential for growth. The group is skilled at handling the country's sometimes slippery officialdom—unlike foreign-based rivals, such as BHP Billiton and Anglo American, which have no presence in India. “It helps that we understand India,” says Mr Agarwal.

In a way, he is emblematic of India's emergence. Around half of India's dozen richest businessmen are self-made men. But none more so than Mr Agarwal, now 53, whose personal fortune is estimated at $5.4 billion. When he left school at 15, he knew no English, the language of India's seasoned elite. Even after a decade based in London, his English remains imperfect. “We are very humble,” he says, his unwitting use of the royal “we” perhaps making him sound rather grander than he intended.

Start small, think big

In the 1990s Mr Agarwal's copper and cable businesses grew on the back of the telecoms boom. He then raised his game in 2001 with Sterlite's successful bid for 51% of the Bharat Aluminium Company (BALCO), India's first privatisation. The deal was consistent with his strategy of backward integration—but also with Mr Agarwal's record for controversy. In 1998 Sterlite was briefly banned from India's capital markets over allegations of insider trading, though the order was later repealed. The BALCO deal was marred by a two-month strike by the company's workers. As the symbol of a still-controversial (and now apparently mothballed) divestment programme, it remains politically sensitive. Sterlite has therefore been unable to exercise an option to buy the remaining 49% of BALCO.

Few Indian companies have grown so fast without stirring controversy. Just as remarkable was the ease with which Mr Agarwal graduated from managing a medium-sized company to running a large group. This has not sated his appetite for risk. As he puts it: “As an individual, we're very strong as an entrepreneur.” Mr Agarwal says he remains interested in further acquisitions, but concedes that his hands are rather full. If approved, Vedanta's plans in Orissa, which holds the world's fourth-biggest bauxite deposit, will keep him particularly busy. He faces strong opposition from environmentalists and local tribes, however. The example of POSCO, a South Korean steelmaker, is not encouraging. Three years after announcing plans for a $12 billion steel project in Orissa, it is still waiting for the requisite permits and land. Then again, Mr Agarwal is not South Korean.

He is Indian, and proud to be—hence, he says, his philanthropic scheme to donate $1 billion to found a world-class university in India. Vedanta University will be constructed on a 3,200-hectare site in Orissa and will cater for 100,000 students when it is completed, around 2025. “When you go to the US, you see their large universities, Harvard and Berkeley, and we don't have them,” says Mr Agarwal. “Yet the biggest thing you can give to people is education.” Sceptics say he has chosen Orissa as the site for the university for political reasons. It is certainly an extraordinarily ambitious scheme. But there is no doubting Mr Agarwal's ability to overcome obstacles and establish giant enterprises with surprising speed.

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Sarbanes-Oxley

Five years under the thumb

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Satoshi Kambayashi

Corporate America is learning how to live with the tough regulations introduced after the collapse of Enron

FOR the leaders of corporate America it has been five long years. The Sarbanes-Oxley Act, widely known as SOX, was signed into law on July 30th 2002 by George Bush, who called its tough new rules the “most far-reaching reforms of American business practices since Franklin Roosevelt was president”. The hope was to restore public confidence in American business, which had been badly shaken by huge corporate scandals, such as those which led to the bankruptcies of Enron and WorldCom.

The act created a new regulator for the accounting industry: the Public Company Accounting Oversight Board. To address some obvious conflicts of interest, auditors were prohibited from doing a variety of non-audit work for clients. Firms had to establish independent audit committees, company loans to executives were banned, top executives had to certify accounts and whistleblowers were given more job protection if they reported any suspicions of fraud.

In the act's now notorious section 404, managers were made responsible for maintaining an “adequate internal-control structure and procedures for financial reporting”. Companies' auditors were required to “attest” to the bosses' assessment of these controls and disclose any “material weaknesses”. Failure to comply could result in tough new criminal penalties.

Controversial from the start, SOX came to be despised by many businessmen in America (and beyond, where it has touched big foreign firms). Even its authors have reservations, conceding that its hasty passage into law meant it was badly drafted in parts. “Frankly, I would have written it differently,” Michael Oxley, one of the former congressmen who drafted the act said in March. He added that the same was true of his co-author, Paul Sarbanes. “But it was not normal times.”

The charges levelled against SOX are numerous and serious. Top of the list is the price of compliance. It soon became clear that the costs of implementing SOX's provisions, particularly section 404, far exceeded the modest sums initially predicted. The act is now widely regarded as a licence for audit firms to print money—ironic in that it was these fee-driven firms that, arguably, encouraged the lax accounting that led to the legislation.

Beyond its immediate price-tag, SOX stands accused of undermining America's entrepreneurial spirit. Barely a year after it became law, William Donaldson, then chairman of the Securities Exchange

Commission (SEC), wondered if by unleashing “batteries of lawyers across the country” the legislation would lead to a “loss of risk-taking zeal” due to a “huge preoccupation with the dangers and risks of making the slightest mistake”. Others argue that the act has backfired. Rather than restore confidence in public companies, they claim, it has weakened America's stockmarkets, by driving domestic firms into the arms of private-equity buyers and prompting foreign firms to list their shares elsewhere.

Number crunching

How plausible are these accusations? An army of academics has weighed in on the great SOX debate. But their analyses are hindered by two difficulties. First, SOX was one of a number of post-Enron initiatives, ranging from tougher listing requirements for firms to longer jail sentences for errant executives. Untangling the effects of SOX from these other changes is hard. Nor is it easy to work out how investors and businessmen—who were trying to come to terms with the bursting of the late 1990s stockmarket bubble—might have reacted to the corporate scandals without SOX.

Some academics have concluded that the costs of SOX far outweigh the gains. A much-debated 2005 study by Ivy Zhang, then of the William E. Simon Graduate School of Business Administration, estimated that the law's costs exceeded any benefits by a mind-boggling $1.4 trillion. That controversial figure was derived from an econometric estimate of “the loss in total market value around the most significant legislative events”—in other words it assumes that, after taking account of other news, any drop in share prices as the new rules were enacted was thanks to SOX.

In a more recent study, Leonce Bargeron, Kenneth Lehn and Chad Zutter, of the University of Pittsburgh, argue that SOX has “had a chilling effect on risk-taking” by publicly traded American companies. Using a sample of British companies as a benchmark, the study found that American firms have significantly reduced their investment in R&D and overall capital spending, while increasing their holdings of cash. Collectively, they concluded, this reveals a “statistically significant reduction in risk-taking after the adoption of SOX”.

The academics found a second measure to support their conclusions. The standard deviation of share returns—a measure of risk—also fell for the American firms relative to their British counterparts. On the other hand, the study also reported that the riskiness of American companies post-SOX was higher than in the mid-1990s, before the stockmarket bubble got really out of hand. And the ratio of R&D and total capital spending to assets—and thus, presumably, the appetite for risk—was considerably higher in America than in Britain before and after SOX.

Messrs Bargeron, Lehn and Zutter also looked at 9,258 initial public offerings in America and Britain between 1990 and 2006. They found that post-SOX, the probability of listing shares in Britain rose sharply. This seems to support the view that SOX has weakened America's stockmarkets, by driving domestic firms into the arms of private-equity buyers and causing foreign firms to list elsewhere. Others, however, dispute that claim. The past year has seen several official inquiries into the competitiveness of American financial markets, supported by the treasury secretary and the mayor of New York, among others. None pinned much blame on SOX, pointing instead to a range of problems including America's addiction to litigation.

Kate Litvak, of Texas Law School, used a different technique to gauge SOX's effect on America's capital markets. In a recent paper she examined its impact on the shares of firms listed both in America and abroad. Shares of cross-listed firms tend to trade at a premium to shares of similar firms that are not. Cross-listed firms seem to gain extra credibility by subjecting themselves to tough foreign corporate-governance requirements, as in America. Ms Litvak found that the cross-listing premium declined after SOX, suggesting that investors believed that the costs of the legislation would, on average, exceed the benefits for cross-listed firms.

In a study published last year by the University of Southern California, Ehud Kamar, Pinar Karaca-Mandic and Eric Talley investigated whether SOX had driven firms out of the public markets. Using a sample of 8,266 acquisitions by private-equity firms in 76 countries between 2000 and 2004, they found that after SOX was passed, it became relatively more likely for small public firms in America to be sold to private-equity buyers than similar small firms elsewhere. But there was no change in the relative likelihood of larger American-listed firms going private. This seems to support the view that SOX is particularly burdensome for smaller companies.

Not all academics are anti-SOX. Luigi Zingales, of the University of Chicago, argues that it was a public-

relations triumph, quickly restoring confidence. “The fact it was there, it was strong, it was done quickly, was very important,” he says. This, he notes, was in contrast with his native Italy, which took “two years and lots of bickering” to get a new law after an Enronesque scandal at Parmalat.

Making the audit committee independent and giving it, not the boss, the responsibility for hiring the auditor, was also a big step forward, says Mr Zingales. It may have contributed to the improved performance of auditors which Mr Zingales, Alexander Dyck and Adair Morse report in their paper “Who Blows the Whistle on Corporate Fraud?”. The three economists examined 230 alleged corporate frauds in America during 1996-2004. They found that, pre-SOX, only one-third of big corporate frauds were uncovered by those with a responsibility to find them, such as auditors, industry regulators or the SEC. Employees were more likely than anyone to report corporate wrongdoing. After SOX, however, the proportion of serious frauds discovered by those professionally responsible for doing so rose to 50%. In particular, there was a “stunning increase in the role of auditors (a four-fold increase in the relative frequency of detections) and of the SEC (a doubling of their importance, albeit from a very low level)”.

Sharpening up

Alas, the economists admit they “cannot determine” what part of the post-Enron reforms has led auditors to sharpen their scrutiny of companies. Could it have been the severing of their consulting businesses from their auditing clients? Or was it the salutary effect of the demise of Arthur Andersen, or the required increase in professional scepticism now demanded from section 404? In other words, they do not know whether this is “a permanent change or a temporary reaction to an event that made the risk of bad auditing salient”.

The professionals may have a sharper eye, but successful whistle-blowing by employees fell after SOX, from 20.7% to 15.6% of cases. This, argue the three economists, “suggests SOX's modest incentives are not very effective”. They seem to have brought a surge in frivolous accusations by disgruntled and fired employees rather than tips about serious fraud. Far better, say the three economists, to replicate the financial incentives for whistle-blowing used in America's health-care system, which have led to a higher rate of fraud detection but scant increase in frivolous accusations.

Another good sign is that the costs of complying with SOX are coming down. According to the latest annual study of compliance by Financial Executives International, a club for chief financial officers, even the hated section 404 is costing less. The group's poll of 200 companies with average revenues of $6.8 billion found that the typical cost of section 404 compliance was $2.9m in 2006, 23% lower than in 2005. Internal staff time also fell, by 10%. Adapting to section 404 involved high start-up costs, but now “efficiency gains are being realised”, says Michael Cangemi, the group's chief executive.

Better still, under pressure from the SEC, the Public Company Accounting Oversight Board has changed its guidance on how to implement section 404. Until now, auditors have been encouraged to be zealous with internal controls, replicating much or all of the work of a firm's internal auditors, and testing the robustness of internal controls against every imaginable risk. The new audit standard, which was approved by the SEC this week, allows a more pragmatic, commonsense approach. Some estimates suggest that compliance fees could fall by as much as half.

Yet, as seems to be the way with SOX, not everyone welcomes this reform. Stephen Bainbridge, the author of “The Complete Guide to Sarbanes-Oxley”, argues that “nothing the SEC has done or plans to do will change the existing incentive-structure for officers and directors. The firm's top management will still have plenty of incentives to spend shareholder money on protecting themselves from SOX liability.”

Others are more sanguine, and see SOX as part of the inevitable swings in America's regulation of business. In a study, Mark Roe of Harvard Law School argues that scandals such as the fall of Enron are the result of two “core instabilities” in America's system of corporate governance: the separation of the ownership and control of big firms, and weaknesses arising from America's decentralised system of regulation. These two instabilities have combined to create some sort of “fundamental large-firm problem” in each decade since the second world war.

If history is any guide to the outcome of reforms such as SOX, America will “solve the current issues—or more plausibly, reduce them to manageable proportions—but then sometime later, somewhere else, another piece of the corporate apparatus will fail,” argues Mr Roe. “We'll patch it up, we'll move on, we'll muddle through. That's what will happen this time, and that's what will happen next time.”

Links to the papers and reports referred to in this briefing can be found at: www.economist.com/sarbanes-oxleysources

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Sovereign-wealth funds

Keep your T-bonds, we'll take the bank

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David Simonds

The governments of China and Singapore take stakes in Barclays, giving some clues about how sovereign investors plan to operate

THE mission of China Development Bank (CDB), which was founded in 1994, is to support "the state's policies to implement disciplined development and build a harmonious society." Barclays bank, which was founded in the early days of the Qing dynasty, exists to serve its customers and shareholders. The fortunes of this unlikely pair are now joined: the Chinese bank announced this week that it is taking a stake in Barclays—as is Temasek Holdings, part of the government of Singapore's investment arm. This will boost Barclays in its bid for ABN AMRO, a Dutch bank. It also marks a new adventurousness on the part of China's government. When it bought a $3 billion stake in Blackstone in May, the party men gained no control over what the private-equity partnership did with its money. This time CDB will have a seat on the board.

Although CDB is a state-owned bank, most governments buy their foreign assets through state-run investment pools, known as sovereign-wealth funds. These funds are getting bigger and bolder. They have some $1.5-2.5 trillion to play with, according to America's Treasury, a sum expected to grow fast. Although sovereign funds began investing conservatively, the Barclays deal shows that they can provide an attractive source of funding for mergers and acquisitions. Some sovereign funds are also getting into the buy-out business. Delta Two, a fund backed by the government of Qatar, is currently bidding for Sainsbury's, a British supermarket. Yet despite making their presence felt in financial markets, little is known about these funds.

To understand them, it helps to think about where their money comes from. Many emerging markets, notably China, have built up vast reserves of foreign exchange. Such reserves are traditionally invested in liquid assets like Treasury bonds, which could be sold quickly if the central bank had to prop up the currency. But many countries have far more reserves than they need for this purpose. And China is in any case protected by capital controls. That leaves the government free to buy more exciting things where it might make a better return. Earlier this year China decided to set up a sovereign fund.

Most of the other funds get their money from oil exports. Such funds have been around for some time—Abu Dhabi, for example, started a fund in 1976—but have been multiplying recently. Russia intends to channel some of the money from its Oil Stabilisation Fund, which invests in safe, liquid assets, into a more adventurous sovereign-wealth fund. Kazakhstan, Azerbaijan, Venezuela, Bolivia, Nigeria and Angola have all either set up funds recently or are looking at doing so.

Many of these funds are trying to imitate the success of Norway's Government Pension fund, whose staff have been flying around the world dispensing advice. One staffer recently spent a year and a half in East Timor helping to set up a fund there. “We have done a lot of work on how to decouple government revenues from the oil price,” says Martin Skancke, head of asset allocation for Norway's Ministry of Finance, shortly before boarding a plane bound for Bolivia. Norway's fund has two jobs: to act as a buffer against volatility in the price of oil and as a long-term savings vehicle. It too is taking on more risk. In April the fund announced it would increase the share of equities in its portfolio from 40% to 60%. Mr Skancke says it is now looking to buy up real estate.

Although the governor of China's central bank was in Norway a few weeks ago talking about sovereign-wealth funds, the Chinese fund is likely to be modelled on Singapore's two funds, GIC and Temasek. These entities are more used to taking big stakes in companies than Norway's fund, which will not buy more than 5% of any one company. Temasek, by contrast, bought 12% of Standard Chartered bank last year. The Singaporean funds also try to import expertise through their investments—hence a focus on telecoms and banking. It would be surprising if China's fund did not make investment decisions for similar reasons.

How scary is that?

It is hard to see how the exemplary Norwegians, Alaska's Permanent Fund Corporation or Australia's Future Fund could be anything other than a good thing for financial markets. But the other funds' lack of transparency is worth worrying about. If one made a bad bet and had to unwind it fast, nobody would know what was happening. No one knows how they manage risk. And although funds have tried hard to avoid buying assets that might attract the attention of politicians and voters, nobody knows how politically motivated they might become.

That said, sovereign funds are hardly the only force in the financial markets that remains murky. They should also prove to be long-term investors, able to buy when markets are flat or falling. “Our average bets are about $500m. These are medium to long-term positions,” says Sameer Al Ansari, executive chairman and CEO of Dubai International Capital. That is good for stability.

Such investments can bring benefits for the recipients too. John Varley, Barclays' chief executive, says that CDB's stake in Barclays will create business opportunities for his bank in China. Barclays Capital is looking to get into debt issuance and other structured products, and Barclays Global Investors will seek to manage assets for Chinese clients.

As long as such reciprocity remains, sovereign funds should find themselves able to shop fairly freely. America's Committee on Foreign Investment (CFIUS) has made it clear that it will consider the openness of other countries' markets when their governments are trying to buy American companies. On July 25th Alistair Darling, Britain's chancellor, said that Britain would resist any calls for protectionism arising from worries about sovereign-wealth funds, as long as the governments that backed them kept their markets open. If they want things to stay that way, the funds should open up too.

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Buttonwood

Spreading caution

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The credit market suffers from a spot of apprehension and indigestion

CALLING it a credit crunch might be an overstatement. But it does look like a credit squeeze. In recent years, investors' enthusiasm for high-yield products has allowed borrowers free rein in the debt markets. Blessed by strong profits and buoyant economic conditions, companies seemed more than capable of paying back their debts; default rates have been remarkably low.

Indeed, such was the power of borrowers, private-equity groups chief among them, that they were able to dispense with the market's traditional safeguards. They dropped some of the covenants that gave lenders the right to act if the borrower's finances deteriorated.

Suddenly, however, investors are turning their noses up at some deals. Banks that had lent large sums to finance the buy-out of Chrysler, the car giant, and AllianceBoots, the drugs retailer, had hoped to sell these loans to an eager market. This week both debt sales were postponed in the face of sniffy investors. A similar sale to fund the buy-out of US Foodservice, a food distributor, was scrapped last month. Even before the latest news Baring Asset Management counted 28 corporate-bond or loan deals, worth around $17 billion, that had been pulled since June 22nd.

What has prompted this change of heart? Many point to the problems in the American subprime-mortgage market, where defaults have risen and several hedge funds have been wiped out in the process. Countrywide, a mortgage bank, has triggered further concerns by admitting that bad-debt problems are now spreading to conventional loans.

When investors suffer losses in one part of their portfolio they get nervous about potential problems elsewhere. On July 20th the European crossover index, which covers riskier corporate debt, suffered the worst day in its short history. The spread (excess interest rate) over government bonds widened by two-fifths of a percentage point.

Investors may also be suffering from indigestion. According to Moody's, a rating agency, nearly $1 trillion was raised in European credit markets in the first half of the year. Greg Peters, a Morgan Stanley strategist, says that $57 billion of bonds and more than $200 billion of loans are already in the pipeline: a plentiful supply of debt to absorb the potential demand.

It is hardly surprising, therefore, that investors have decided that higher yields are needed. This has caused a temporary hiatus as issuers get used to the new regime. But it looks more like a return to normality than a buyers' strike. Credit-default swaps (which insure investors against a failure to repay) reflect this shift in sentiment. Jim Reid, the credit strategist at Deutsche Bank, says swap spreads in the European high-yield market are now wide enough to compensate for the average historic default rate. In America spreads are well above that level.

Pushing spreads further might require some actual defaults. That, in turn, would probably require the global economy to weaken significantly. At the moment, however, economists seem pretty sanguine, forecasting output growth of 2.7% for America in 2008 and 2.3% for both the euro area and Japan.

A benign view of the economic outlook may be why the Dow Jones industrial Average recently passed the 14,000 level for the first time. But stockmarkets have shown signs of concern at developments in the credit markets; their latest wobble was on July 24th.

Some of the fundamental supports for equities are being eroded. In America, corporate profits are on course to grow by 5.5% in the year to the second quarter, a long way below the double-digit rises to which investors have grown accustomed. The proportion of firms beating expectations in the second quarter was at its lowest since late 2002. By the measure derived from America's national accounts, profits fell in the fourth quarter of 2006.

And the takeover boom may be near its peak. “The tide appears to be going out for leveraged equity financiers,” says Bill Gross of the bond giant Pimco. Bids have become more expensive to finance while share prices have been rising. Citigroup says that, in mid-2005, the corporate-bond yield was 4.4% and the trailing earnings yield on European equities was 6.8%. That made it highly attractive to issue debt to buy shares. But by mid-July the bond yield was 6.1% and the earnings yield 6.3%, a much less attractive trade.

Predators can be inventive in finding sources of finance for their deals, as Barclays has shown. At the margin, however, bids are becoming harder to pull off. The banks are now stuck with the risk of the AllianceBoots and Chrysler deals. They won't want to make that mistake again.

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Bond insurers

A monoline meltdown?

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A hedge fund stalks subprime's next potential victim

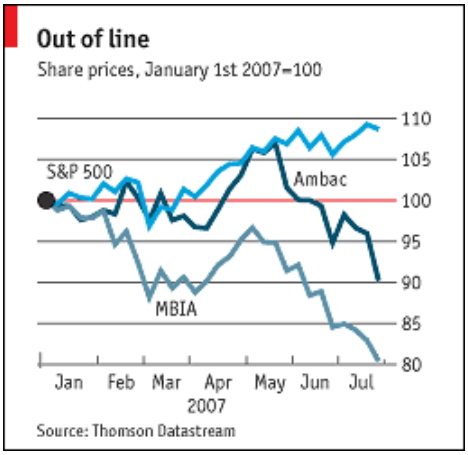
AS AMERICA's subprime-mortgage tempest spreads, Wall Street's latest parlour game is to bet on who will be next to get caught in the storm. A fair few have placed their chips on the so-called monoline insurers, an obscure but important bunch who guarantee the timely repayment of bond principal and interest when the issuer defaults.

The two largest monolines, MBIA and Ambac, both started out in the 1970s as insurers of municipal bonds. In recent years, much of their growth has come in structured products, such as asset-backed bonds and the now infamous collateralised debt obligations (CDOs). The total outstanding amount of paper insured by monolines reached $3.3 trillion last year.

André Cappon of CBM Group, a financial consultancy, describes monolines as “rating agencies that put their money where their mouth is.” Arguably the keenest of credit-market observers, they extend their gold-plated credit ratings to paper they deem worthy of their protection, in return for a premium.

The monolines' share prices have tumbled this year as the depth of the subprime crisis has sunk in (see chart). The cost of insuring against their own default has shot up, prompting talk of a “monoline meltdown”. This week Ambac's second-quarter profit missed forecasts due to a $57m write-down on credit derivatives.

The industry's tormentor-in-chief is William Ackman, who runs Pershing Square, a hedge fund. Mr Ackman has spent the last five years, no less, telling anyone who will listen that the monolines are doomed, with MBIA particularly vulnerable. He points to their massive leverage: outstanding guarantees amount to 150 times capital. He also questions MBIA's “aggressive” accounting techniques. Earlier this year the company paid $75m to settle allegations that it used reinsurance contracts to conceal losses.



Amid the market's jitters, other hedge funds are readily buying into this message. That may be all Mr Ackman, who holds a short (bearish) position in MBIA shares, wants. But most analysts think his analysis is based on a misunderstanding.

Monolines may be highly geared compared with traditional insurers. But, as Rob Haines of CreditSights points out, they are highly conservative in other ways. They model each transaction under a variety of high-stress situations and only accept those that show no losses in all scenarios. This may explain why they had little exposure to New Century, the biggest mortgage lender to go bust so far. Subprime makes up only 1-3% of their direct exposure.

To wipe out the monolines' capital cushion, it would take a loss twenty times bigger than the hit they took last year. Even in today's febrile markets that is hard to imagine, especially since the insurers are at the back of the queue when it comes to taking losses on CDOs. So, though losses may run into the hundreds of millions, they are unlikely to be big enough to deprive the biggest monolines of their cherished triple-A rating.

The monolines may lose business as investors turn their back on CDOs and other structured products. But MBIA's finance chief, Chuck Chaplin, thinks the general confusion over credit risk may even help them, as more debt issuers seek comfort in guarantees. It remains to be seen if that optimism is, like Mr Ackman's pessimism, somewhat overdone.

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China's economy

It doesn't add up

Jul 26th 2007 | HONG KONG
From The Economist print edition

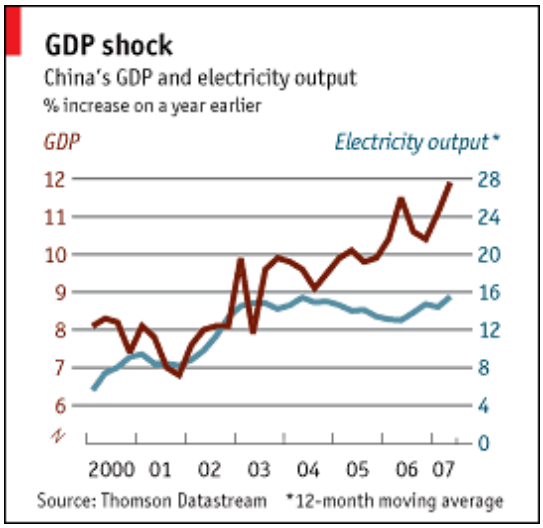
Fears that China's economy is overheating are exaggerated

Get article background

CHINESE students may come top of the world league in mathematics, yet the country's economic numbers are notoriously dodgy. New figures showing that China's GDP growth quickened to 11.9% in the year to the second quarter, its fastest since the mid-1990s, while inflation jumped to 4.4% in June from 3.4% in May, have fuelled concerns that its economy is now seriously overheating. However, a closer inspection of the numbers suggests there is no need to panic—yet.

China is always one of the first countries to report its GDP after the end of each quarter. But speed kills accuracy. Each province later publishes its own growth numbers, which have consistently averaged higher than the national figure in recent years. Moreover, if you add up the main components of GDP—investment, consumption and net exports—you also get a higher growth rate.

Thanks to such inconsistencies, many China-watchers track alternative proxies of growth. Jonathan Anderson at UBS uses one based on production (industry, electricity, construction, transport and agriculture) and another based on real expenditure (household spending, fixed-asset investment and net exports). Curiously, neither gauge shows an acceleration since 2003-04. The growth in electricity production rose broadly in line with GDP during the first half of this decade, but the economy's apparent surge since 2004 has not been matched by faster growth in electricity (see chart).



So what are Chinese number-crunchers up to? Mr Anderson suggests that the reported faster growth may partly reflect a move to correct previous inaccuracies. In the past, official GDP figures have been much lower than his own estimates, but now the gap has disappeared. In other words, the acceleration in growth may be largely illusory.

Other classic symptoms of overheating are also absent: bank lending and imports have slowed in recent years, and reports of surging wages due to labour shortages are misleading. Average wages in manufacturing have indeed risen by 15% over the past year. But HSBC reckons that labour productivity in manufacturing rose even faster, by 20%, so unit labour costs are still falling. Even inflation is not as bad as it seems. The recent jump was mainly due to the prices of pork and eggs. Excluding food, consumer prices have risen by only 1% over the past year. That is not to say that rising food prices (one-third of the consumer-price index) do not matter, but they are due to supply-side shocks, such as a pig disease, rather than excess demand.

This may help explain why the People's Bank of China has not slammed on the brakes. On July 21st the central bank raised lending and deposit rates by only 0.27 percentage points, to 6.84% and 3.33% respectively. The government also cut taxes on interest income from 20% to 5%. This will reward savers, giving them the equivalent of an additional 0.5 percentage points of interest, and thus encourage them to keep their money in the bank rather than speculating on shares.

Rates are still too low for such a fast-growing economy, but few expect the bank to lift rates aggressively to quash inflation. Higher rates would do little to dampen food prices. A better solution would be to let the yuan rise more quickly, which would curb the prices of imported foods. Hong Liang at Goldman Sachs reckons that a 10% rise in the yuan's trade-weighted value would knock 1.5 percentage points off inflation over two years.

The yuan's appreciation has already quickened this year, rising by an annual rate of 9% since April, compared with only 3.4% in 2006. Goldman Sachs predicts a further 9% rise over the next 12 months. This would not only help to squeeze inflation, it would also help to ease trade tensions with America, which complains that China's currency is too keenly priced. This week the Senate Finance Committee was due to begin drafting legislation that would allow firms to seek antidumping duties to offset the alleged “subsidy” from the undervalued yuan. The bill enjoys wide support and is likely to be passed before the end of the year. The real overheating, it seems, may be in Congress.

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Equity research

Trading favours

Jul 26th 2007 | NEW YORK
From The Economist print edition

Analyst for sale. Price: membership of a good club

IN HIS long campaign against Wall Street shenanigans, Eliot Spitzer's biggest coup was the “Global Settlement”. This forced a group of banks to build sturdy walls between their equity analysts, who offered opinions about stocks, and investment bankers, who were keen to sell them. But did New York's wily attorney-general (now the state's governor) miss a trick? A new study*, to be presented at the Academy of Management's annual meeting in Philadelphia next month, suggests Mr Spitzer might have done better to investigate another cosy relationship: between the analysts and the people who run the companies they cover.

The authors canvassed several thousand analysts and executives over two years. The research lulled its subjects into revealing more than they should by burying the nosiest questions in a much bigger, largely feel-good survey. As a result, almost two-thirds of the analysts admitted to receiving favours from the firms they cover. And those favours appeared to sway their recommendations to their clients.

According to Regulation FD (for Fair Disclosure), adopted in 2000, any company information given to one analyst must be made available to all. But many other questionable perks remain perfectly legal. The study uncovered lots of popular favours, such as putting an analyst in touch with executives at other firms, giving him career advice, recommending him for a job or offering to meet his clients. Some executives also offer to help their analysts get membership of private clubs.

The favours are not handed out willy-nilly. The more disappointing a company's profits, the more favours its executives bestow. Worryingly, these seem to have the desired effect. If a company suffers subpar profits, doing a good turn for an analyst cuts the likelihood of a downgrade by half. In the wake of a big acquisition, which analysts tend to frown on, the likelihood falls by 65%.

Worse, analysts also respond to favours withheld. Those who had heard of a chief executive or chief financial officer refusing to return other analysts' calls, because they had recently downgraded the stock or expressed a negative view, were much less likely to cut the company's rating in response to unexpectedly weak profits.

None of this is outright bribery. Nor, unlike the provision of inside information, does it give analysts a chance to make a quick buck. But it does raise serious questions about their objectivity, at a time when the equity-research business is already under pressure. Sandy Bragg of Integrity Research Associates, which analyses the analyst business, points out that investment funds have been moving away from mainstream research providers towards specialist boutiques that don't issue stock recommendations and thus “don't have to play these games”. This study will only hasten that move, he suggests. The two researchers, it seems, have done stock investors a favour.

* “Sociopolitical Dynamics in Relations Between Top Managers and Security Analysts”, by James Westphal, University of Michigan, and Michael Clement, University of Texas, Austin

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Wildfire insurance

Burnt out

Jul 26th 2007 | SEATTLE
From The Economist print edition

George Bush is not the only one clearing brush

LAZY summer days are a rarity for America's firefighters, who must battle dozens of big blazes around the west. Utah is trying to extinguish a huge fire, and the flames are also licking Oregon, Nevada and Idaho. Last month, a costly fire swept around Lake Tahoe, on the border of Nevada and California. Last year was the most combustible on record, with 9.9m acres (4m hectares) of America burned, up from 8.7m in 2005.

AP

Here come the claims adjusters

Insurers are also feeling the heat. Wildfires in the Californian counties of San Diego and San Bernadino in 2003 each resulted in payouts of roughly $1 billion. Mindful of the golden state's high catastrophe risks, which include earthquakes as well as blazes, Allstate recently stopped issuing insurance policies to new homeowners.

The rise in singed acres is largely due to two factors: widespread drought, which may become endemic thanks to climate change, and the Forest Service's policy of stopping all fires as soon as they start. Paradoxically, this allows dry brush to build up, resulting in more intense fires later.

Just as worrying, more Americans are building homes in the woods. These are not the log cabins of yore; many are well-equipped and spacious second addresses. Firefighters grumble that their lives are put at risk saving rich people's vacation homes.

Many insurers say they have not raised premiums, yet. “What is new is increased scrutiny in wildfire-prone areas,” says Karl Newman of the Northwest Insurance Council. Insurers (along with state and local governments) are demanding that homeowners take more fire precautions, and they are sending inspectors to monitor progress. Precautions include clearing brush from within 100 ft (30 metres) of a house, replacing wood sidings and roofs, and thinning trees. Those who do not comply may lose coverage. Insurers are thinking twice about covering people who live far from a fire station or a water source. And they may turn their backs on those who occupy a house on a steep slope that fire engines struggle to climb.

To the insurance industry, wildfires thus bear some resemblance to hurricanes. More people are building in dangerous areas, and insurers are responding with stricter coverage. But whereas Hurricane Katrina's victims were mostly poor people, wildfires mainly affect the rich. Most insurers will therefore be reluctant to follow Allstate's lead and stop covering new homes. Instead, they may become as fussy as the president about clearing brush.

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Banking

All together now

Jul 26th 2007 | NEW YORK
From The Economist print edition

Regulators in America have agreed on new banking rules at last

AMERICAN banking used to prosper in its provincialism. The home market was big, rich and run by its own rules. But American banks and their regulators seem to be entering into a newly cosmopolitan spirit. Last week Citigroup announced that sales in its international business grew by more than a third in the year to the second quarter. The world beyond America's borders now accounts for around half of its business. Other American banks are also seeking higher growth abroad.

Meanwhile, America's four banking regulators have conceded that “going international” is the way of the future. On July 20th they announced a long-sought compromise on “Basel 2”, new global rules that stipulate how much capital a bank must set aside as a buffer against various disasters. “We deviated too much from international standards in the past,” says John Dugan, head of the Office of the Comptroller of the Currency, one regulator. “The pendulum needed to swing back to the international agreement.”

American regulators had broadly accepted Basel 2 back in 2004, when they signed up to its framework. But since then, wrangling has ensued over how to implement the rules. The sticking point? Whether, and how much, a bank's capital cushion should be allowed to fall.

Under Basel 2, a bank's “regulatory capital” (the amount of capital it must stockpile for a stormy day) is tied to the riskiness of its loans and assets. Thus a bank that is sophisticated at handling risk could set aside less capital. This enticing prospect is meant to encourage banks to invest in their risk-management systems. Under the rules, big, savvy banks are largely free to make their own decisions about how plump a cushion they need.

This has worried some regulators, particularly the Federal Deposit Insurance Corporation (FDIC), which underwrites America's deposit insurance. Studies have shown that capital levels in America could drop drastically under the Basel 2 accord. Banks with identical assets also arrive at quite different conclusions about how much regulatory capital they should have on hand. “Models are not infallible,” notes Sheila Bair, head of the FDIC. As proof she points to the ongoing turmoil in the subprime-mortgage market. Esoteric securities backed by these mortgages were grossly mis-valued by the computer models of big banks and credit rating agencies.

However valid, these doubts and quibbles left the accord in limbo. The agreement reached last week came after mounting pressure from the big banks and the Bush administration to resolve the uncertainty. The FDIC agreed to ditch a proposal that would have forced regulators to modify Basel 2 if total bank-capital levels dropped by 10% or more. In return, regulators agreed to go slowly: banks will implement Basel 2 over a three-year transition period, during which time capital levels are not allowed to fall by more than 15% in total. After the second year of transition, regulators agreed to conduct a study on the impact of the rules and rewrite them if any “material deficiencies” are discovered.

Big banks are relieved. They were worried that the impasse had already left them at a disadvantage compared with their foreign rivals. European banks, for example, began to implement Basel 2 last January, and regulators have imposed fewer restrictions on capital decreases. The banks are also happy that regulators have promised to cleave more closely to international rules. This means that big banks will probably not need to build costly parallel systems to comply with American rules.

Even with Friday's agreement, American banks must still adhere to a crude “leverage ratio”. This is a simplistic measure of a bank's lending exposure, which can require a bank to hold more capital than its own calculations would deem necessary. Even as American banks venture further abroad, their regulators insist they live by some simple home truths.

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Economics focus

Soft currency

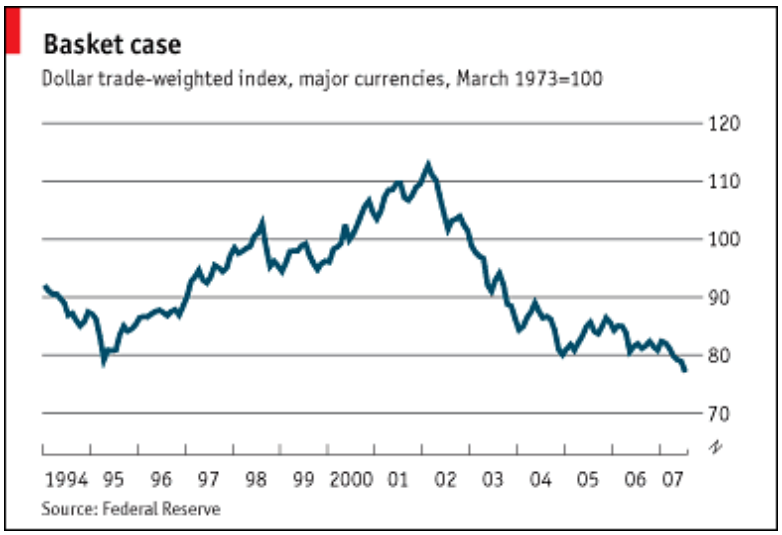
Jul 26th 2007
From The Economist print edition

The dollar is weak against a clutch of currencies that share many of its flaws

Get article background

LONDON is never a cheap destination, but American visitors to Britain's capital this summer will find their wallets emptying a little faster than usual. A dollar now buys less British currency than it has for a generation. On July 23rd, the greenback slumped to $2.06 against the pound, its weakest level since 1981. Paris is scarcely cheaper for transatlantic tourists: this week the dollar sagged to €1.38, its lowest rate since the euro's launch in 1999.

The greenback has never been further out of favour on currency markets. The Federal Reserve tracks the dollar's value against a weighted basket of seven currencies that are commonly traded beyond their respective borders. This index, regarded as a good gauge of financial-market sentiment about the dollar, has fallen to an all-time low (see chart).



What lies behind the latest bout of dollar weakness? Part of the slump is cyclical, reflecting America's weak economy. GDP growth this year is expected to be lower in America than in the euro area, Britain, Australia and Canada, according to *The Economist*'s monthly poll of forecasters.

The origins of weak growth are a particular worry. Just as the trouble in America's housing market is a drag on the economy, the turmoil in the subprime-mortgage market weighs on the currency. Analysts at Goldman Sachs believe that lower overseas demand for corporate debt has put downward pressure on the dollar. The disquiet about mortgage credit in America, they suggest, may even have chipped away a little at the dollar's standing as a reserve currency.

High oil prices haven't helped either. Paul Robinson, a currency strategist at Barclays Capital, reckons that the dollar is the worst performing major currency during periods of rising oil prices. This might be because America uses more oil for each unit of output than other rich countries, so the higher cost of fuel hits growth—and thus the dollar—harder. American consumers are especially vulnerable, because low fuel taxes leave a thinner cushion between the cost of crude and retail prices. The spending of petrodollars also helps the dollar less than the euro, because oil-producing countries tend to import more from Europe than America.

So a steep oil price, a weak economy and an anxious credit market have all weakened the dollar. But America's growth prospects are not so poor and the subprime-mortgage market not so woeful—at least,

not yet—that they can fully explain the dollar's recent sickliness.

Stephen Jen, currency economist at Morgan Stanley, suggests there might be more powerful forces driving the dollar down. A common fear is that Asia's central banks will diversify out of their large holdings of American debt. Mr Jen argues, however, that the biggest dollar diversifiers have been pension, insurance and mutual funds in America. These funds control assets worth $20.7 trillion, more than four times the size of the world's official currency reserves.

American mutual funds have gradually increased their overseas allocation of equities since 2003 from 15% to 22.5% of assets, says Mr Jen. If this portfolio shift mirrors the behaviour of all pension, insurance and mutual fund managers, it would imply an outflow from dollar assets of $1.16 trillion since 2003. That sum is not far short of China's entire hoard of official reserves.

Mr Jen argues that these capital outflows need not be a sign that asset managers are gloomy about prospects for either the dollar or the American economy. Rather they might reflect an underlying decline in provincialism, as investors gradually come to appreciate the dangers of relying excessively on home-country assets. A similar thing is happening, he says, in Japan where households are greedily buying overseas assets. If the dollar has suffered most, it is only because American institutions are the biggest pioneers of financial globalisation.

Yet wariness about the dollar may be part of the motivation to diversify. A regular survey by Merrill Lynch shows that global fund managers have been consistently negative about the dollar's prospects for the past five years. For most of that period, the same asset managers have expressed a wish to reduce the weight of American assets in their portfolios, though that urge was strongest three years ago. It is hard to disentangle diversification from desertion since each feeds on the other.

Don't deficits matter?

On the surface, the latest episode of dollar frailty seems to validate concerns about America's persistent current-account deficit and the associated build-up of overseas debt. Many economists welcome a weaker dollar which, by making America's imports dearer and its exports cheaper, helps narrow the country's external deficit. Indeed, the trade gap in the first five months of this year was smaller than in the same period in 2006.

But a closer look suggests that currency markets, rightly or wrongly, are blithe about trade imbalances. Some of the countries whose currencies have gained most at the dollar's expense, like Britain, Australia and New Zealand, have large external deficits and debts too. Australia's current-account shortfall has been more persistent than America's and, as a result, its net overseas debt last year was 60% of its GDP, compared with 19% for America. New Zealand's debt ratio is larger still at 90% of GDP. Meanwhile the currency of the world's largest creditor nation, Japan, continues to languish—even against the dollar.

If anxiety about global imbalances is not driving currency markets, perhaps the dollar might rally once America's economy is back on its feet. It has, after all, fallen a long way already: on the Fed's broad trade-weighted index, the greenback is down 22% since its peak in 2002. According to the purchasing-power parities calculated by the OECD, the dollar is undervalued by 15% against the euro, 18% against the Australian dollar and 21% against the pound. Such divergences from fair value might not prove sustainable, particularly for the countries that have external financing gaps of their own to fill.

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Power transmission

Where the wind blows

Jul 26th 2007
From The Economist print edition

Stephen Jeffrey

A grandiose plan to link Europe's electricity grids may recast wind power from its current role as a walk-on extra to being the star of the show

PLUG in your toaster—or your television or your vacuum cleaner—and the electricity that surges through it is an alternating current. The question of whether the world would be powered by direct current (DC), in which electrons flow in one direction around a circuit, or by alternating current (AC), in which they jiggle back and forth, was decided in the 1880s. Thomas Edison backed DC. George Westinghouse backed AC. Westinghouse won.

The reason was that over the short distances spanned by early power grids, AC transmission suffers lower losses than DC. It thus became the industry standard. Some people, however, question that standard because over long distances high-voltage DC lines suffer lower losses than AC. Not only does that make them better in their own right, but employing them would allow electricity grids to be restructured in ways that would make wind power more attractive. That would reduce the need for new conventional (and polluting) power stations.

AC / DC / PC

Wind power has two problems. You don't always get it where you want it and you don't always get it when you want it. According to Jürgen Schmid, the head of ISET, an alternative-energy institute at the University of Kassel, in Germany, continent-wide power distribution systems in a place like Europe would deal with both of these points.

The question of where the wind is blowing would no longer matter because it is almost always blowing somewhere. If it were windy in Spain but not in Ireland, current would flow in one direction. On a blustery day in the Emerald Isle it would flow in the other.

Dealing with when the wind blows is a subtler issue. In this context, an important part of Dr Schmid's continental grid is the branch to Norway. It is not that Norway is a huge consumer. Rather, the country is well supplied with hydroelectric plants. These are one of the few ways (but not the only way, see article) that energy from transient sources like the wind can be stored in grid-filling quantities. The power is used to pump water up into the reservoirs that feed the hydroelectric turbines. That way it is on tap when needed. The capacity of Norway's reservoirs is so large, according to Dr Schmid, that should the wind drop all over Europe—which does happen on rare occasions—the hydro plants could spring into action and fill in the gap for up to four weeks.

Put like this, a Europe-wide grid seems an obvious idea. That it has not yet been built is because AC power lines would lose too much power over such large distances. Hence the renewed interest in DC.

Westinghouse won the battle of the currents in the 1880s because it is easier to transform the voltage of an AC current than of a DC current. High voltage is the best way to transmit power (the higher the voltage, the smaller the loss), but high voltage is not usually what the user wants. Power is therefore transmitted along high-tension AC lines and then “stepped down” to usable voltages in local sub-stations.

Edison was right, however, to argue that DC is the best way to transmit electricity of any given voltage. That is because the shifting current of AC runs to earth more easily than DC does. To avoid this earthing, AC lines have to be built a long way from the ground—and the higher the voltage, the farther away they need to be. At 400 kilovolts, a standard value for long-distance transmission, an alternating current 30 metres (100 feet) from the ground has a fortieth of the loss of a similar cable at ground level. But even at this height an overhead DC line will beat an AC line at distances more than 1,000km (600 miles), while ground-level DC will beat AC at distances as short as 30km.

Dr Schmid calculates that a DC grid of the sort he envisages would allow wind to supply at least 30% of the power needed in Europe. Moreover, it could do so reliably—and that means wind power could be used for what is known in the jargon as base-load power supply.

Base-load power is the minimum required to keep things ticking over—the demands of three o'clock in the morning, or thereabouts. At the moment, this is supplied by traditional power stations. These either burn fossil fuel and thus contribute to global warming, or use uranium, which brings problems such as how to get rid of the waste, as well as political opposition.

Though wind power has its opponents, too, its environmental virtues might be enough to swing things in its favour if it were also reliable. Indeed, a group of Norwegian companies have already started building high-voltage DC lines between Scandinavia, the Netherlands and Germany, though these are intended as much to sell the country's power as to accumulate other people's. And Airtricity—an Irish wind-power company—plans even more of them. It proposes what it calls a Supergrid. This would link offshore wind farms in the Atlantic ocean and the Irish, North and Baltic seas with customers throughout northern Europe.

Airtricity reckons that the first stage of this project, a 2,000 turbine-strong farm in the North Sea, would cost about €2 billion ($2.7 billion). That farm would generate 10 gigawatts. An equivalent amount of coal-fired capacity would cost around $2.3 billion so, adding in the environmental benefits, the project seems worth examining. Such offshore farms certainly work. Airtricity already operates one in the Atlantic, and though it currently has a capacity of only 25 megawatts, increasing that merely means adding more turbines.

Nor is this the limit of some people's vision. The Global Energy Network Institute, based in San Diego, California, reckons high-voltage DC lines could be used to bring solar energy to market from places such as the Sahara. Wind and geothermal power could be gathered from as far afield as South America and Siberia. Such a globalised market has its attractions. Whether the world is ready for the Organisation of Electricity Exporting Countries to take over from OPEC, though, remains to be seen.

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Power storage

Trapped wind

Jul 26th 2007
From The Economist print edition

Compressed air might help to make wind power more reliable

PUMPING water into the reservoir of a hydroelectric power plant may be a good way of storing energy captured by wind farms (see article)—but what if there are no such plants to hand and no high-tension lines to reach them? One answer is to use the energy to compress air, which can be squirrelled away in hermetically sealed underground caverns. Then, when electricity is needed, the air can be released and used to turn a generator.

At the moment, however, there are only two compressed-air energy-storage plants in the world (one in America and one in Germany), and neither was built to make use of wind power. Instead, they are designed to take advantage of variations in the price of electricity. When power is cheap, it is used to run their compressors. When it is expensive, the valves are opened and the generators turn.

Compressed-air plants are inefficient, and so they are commercially viable only in places where the price of power varies dramatically. But the intermittent nature of wind power can cause just that sort of variability. At any rate, a group of municipal power companies in the American Midwest reckon that building a wind-powered compressed-air plant to take advantage of the blustery Great Plains will be worthwhile. They have just selected a site in Iowa, and hope to be operational by 2011. BP, a British energy firm, is also looking into the concept.

Meanwhile, General Compression, a small firm based in Attleboro, Massachusetts, is taking another approach. Its windmill compresses air directly. This has the advantage of eliminating two wasteful steps: the conversion of the mechanical power of a windmill into electricity and its subsequent reconversion into mechanical power in a compressor. But an air-compressing windmill, while fine for storing energy, cannot transmit electricity directly to the grid. The firm will not produce its first prototype until 2009, but sceptics already worry that what it gains on the swings, it will lose on the roundabouts—or, in this case, on the turbines.

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Demography and fertility

In vitro veritas

Jul 26th 2007 | LYON
From The Economist print edition

If a country wants to keep its population up, it should promote IVF

INFERTILITY is normally seen as a private matter. If a couple are infertile and wish they were not, that is sad. But there is understandable resistance in many countries to the idea that treatments intended to deal with this sadness—known collectively as assisted reproductive technologies, or ARTs—should be paid for out of public funds. Such funds are scarce, and infertility is not a life-threatening condition.

However, two papers presented to the “State of the ART” conference held earlier this month in Lyon argue that in Europe, at least, there may be a public interest in promoting ARTs after all. The low fertility rate in many of that continent's more developed countries means their populations are ageing and shrinking. If governments want to change this, ARTs—most significantly in-vitro fertilisation (IVF)—could offer at least part of a way to do so.

As the conference heard, IVF does seem to be keeping up the numbers in at least one country. Tina Jensen of the University of Southern Denmark has just finished a study of more than 700,000 Danish women. She found that young women in Denmark have a significantly lower natural conception rate than in past decades. That is partly, but not entirely, because they are having their children later in life. The rest of the cause is unknown, though reduced sperm quality in men may be a factor. Whatever the cause, she also found that the effect has been almost completely compensated for by an increasing use of ARTs. Denmark's native population is more or less stable, but some 3.9% of babies born there in 2003 (the most recent year for which figures are available) were the result of IVF. The comparable figure for another northern European country, Britain, was 1.5%.

Without IVF, then, the number of Danes would be shrinking fast. That it is not may have something to do with the fact that in Denmark the taxpayer will cover up to six cycles of IVF treatment. In Britain, by contrast, couples are supposed to be entitled to three cycles. In practice, many of the local trusts that dish the money out do not pay for any cycles at all.

Jonathan Grant, the head of the Cambridge branch of the Rand Corporation (an American think-tank), believes this is shortsighted. His paper showed that if Britain supported IVF at the Danish level then its birth rate would probably increase by about 10,000 a year.

The cost of offering six cycles to couples (and doing so in practice, rather than just in theory) would be an extra £250m-430m ($500m-860m) a year. That is not trivial, but Dr Grant reckons it is cheaper than other ways of boosting the birth rate. Some countries, for example, have tried to bribe women into having more children by increasing child benefits. According to his calculations, raising such benefits costs between £50,000 and £100,000 a year for each additional birth procured. Ten thousand extra births each year would thus cost between £500m and £1 billion.

There are, of course, some disadvantages to promoting IVF. In particular, women who use it tend to be older than those who conceive naturally, and that can lead to congenital problems in their children. But if the countries of Europe do wish to keep their populations up, making IVF more widely available might be a good way of doing so.

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Asexual reproduction

Wise or foolish virgins?

Jul 26th 2007 | ANTANANARIVO
From The Economist print edition

A new species of crayfish is gaining ground—by cloning itself

SEX is a mystery—and not just to those who indulge in it. By combining her genes with a male's, a female halves her genetic contribution to her offspring, and subsequent generations see it halved again and again. On top of that, the need for each individual to have two parents means the population can grow only half as rapidly as it otherwise might. Why, therefore, bother with the whole messy business in the first place?

Julia Jones of the University of Wales, Bangor, and her colleagues may soon have the answer to that question. They have found a species of crayfish that follows the logic of asexuality and does, indeed, clone itself. Though Dr Jones did not actually discover this species (it was first noted five years ago in a German aquarium, and its genes suggest it came originally from America), she was the person who identified it in the wild—in Madagascar. Her interviews suggest it was imported in about 2003, by people working on a road bypassing Antananarivo, the country's capital. As a result of this accidental import, the stage is set for an unplanned evolutionary experiment. Brute mathematics predict the new species, known as the marbled crayfish, will outcompete the locals. Those who ponder the purpose of sex, though, think the newcomer will eventually face its come-uppance.

The reason, according to those ponderers, is that the genetic diversity promoted by sex is a protection against disease. An asexual female who clones herself ten times is like someone who buys ten raffle tickets, each with the same number. A female who reproduces sexually gets only five tickets for her effort, but they are all different. This, however, is a raffle that the female wants to lose. That is because the prize is premature death for her descendants at the hands of an infection particularly adapted to the winning number—or, rather, the losing combination of genes. If this explanation is right, the marbled crayfish will do very well for an indeterminate period, and will then suddenly vanish.

At the moment, those who work in the paddy fields outside Antananarivo are enjoying the upward part of the trajectory. They are selling marbled crayfish by the condensed-milk-tin load along all the main roads from the city. And the rest of the country is likely to follow suit soon, as the crustacean now appears to be striking out from its bridgehead.

A group of experts has gathered in Antananarivo to draw up a list of questions that need researching. One of their concerns is that the marbled crayfish's sexual cousins have caused havoc elsewhere. The red swamp crayfish, for example, has tucked into the paddy fields of the Iberian peninsula with gusto, eating rice seedlings and burrowing into the banks of drainage channels, causing them to collapse. The enthusiasm that many Malagasy seem to have for spreading their new and fecund friends around the country, to provide an additional “crop”, may thus backfire.

Another worry is that the red swamp invader has helped unleash a deadly fungal disease on native crayfish populations around Europe—a plague to which it is, itself, resistant. That bodes ill for Madagascar's local species. If the theoreticians are correct, a plague will be exactly what gets rid of the newcomer, but it could also spread to the natives, reducing their numbers as well. Until then, however, the researchers can look forward to an experiment involving many a tasty barbecue.

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Globalisation

The early pioneers

Jul 26th 2007
From The Economist print edition

Marco Polo, shown here arriving from India at Hormuz on the Persian Gulf, was a forerunner to today's global traders

Bound Together: How Traders, Preachers, Adventurers, and Warriors Shaped Globalisation
By Nayan Chanda

Yale University Press; 391 pages; $27.50 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

Bridgeman Art Library

A FEW years ago a cranky French cheesemaker called José Bové drove his tractor to the site where a McDonald's restaurant was being built. As journalists and camera crews looked on, he and a band of rustic *confrères* tore the place apart. They did this, Mr Bové explained, not only because burgers are a disgusting expression of American culinary imperialism but also in protest at “what the WTO and the big companies want to do with the world”.

Quite a lot of us derive our patchy understanding of globalisation from such well-publicised high jinks. Often, little in the way of independent thought is brought to bear on the “burgers plus big companies equals bad” style of arithmetic. Nayan Chanda, director of publications at the Yale Centre for the Study of Globalisation, provides background facts for less lazy thinking in a lively book that is packed with incident, anecdote and derring-do.

He points out that globalisation is a new word to describe an old process. The word was introduced in the late 1970s and had gained widespread currency by 1999, the time of Mr Bové's visit to McDonald's. Many thought it described a wholly novel phenomenon. But globalisation really began about 60,000 years ago, when the first migrants walked out of Africa. Human history ever since has been a process of growing interconnectedness.

Mr Chanda organises his argument around what he takes to be the four groups that have done most to bring about this interconnectedness: traders, preachers, adventurers and warriors. Though the motives of these groups—to profit, convert, learn or conquer—have usually been selfish, the overall effect of their actions has been to draw us all closer together.

The four groups are still with us, though some have changed more than others over the centuries. The preachers are going strong, but they now have competition from secular NGOs whose “missionaries” preach human rights and the need to take care of the environment. And while some of us might fancy ourselves as adventurers, we have for the most part degenerated into cheap-flight-enabled tourists—Vasco da Gama and Ibn Battuta would not be impressed.

Mr Chanda traces advances in trading practices and technology—from donkeys and camels to container ships and cargo planes—but is just as good at pointing out deep historical continuities. Frequently he lets figures from the past speak for him in their own words. “The extension and use of railroads, steamships, telegraphs, break down nationalities and bring peoples geographically remote into close connection commercially and politically. They make the world one, and capital, like water, tends to a common level.” The diction aside, it might be a World Bank press release written this morning. It is, in fact, David Livingstone, reflecting on his experiences in Africa in the 1850s.

What makes globalisation today appear so dramatic and sometimes controversial, Mr Chanda reckons, is its visibility. He points out that in 1453 it took 40 days for the pope to learn that Constantinople had fallen to the Turks. In 2001, by contrast, “the twin towers of the World Trade Centre fell in real time, on live television, as the world watched on in horror.”

Such examples hint at the fragility of a globalised world. The closer the connections between the parts, the more vulnerable the whole system becomes to any major wobbles. The fall of the Roman Empire, the Black Death, the collapse of trade and migration in the interwar years of the 20th century: all these either slowed the process of globalisation or stopped it in its tracks, albeit only temporarily. The threats we face today—from a superbug like SARS, for instance, or from Islamist terrorism—can go global faster than any of the threats in the past. On the positive side, so can our response to them.

Mr Chanda makes a solid and attractive case for globalisation and its potential as a force for good. But he also has a great deal of sympathy for globalisation's losers. In his closing chapter he notes coolly that “more than a billion people live on less than a dollar a day, and most are likely never to have made a phone call or to have travelled beyond their place of birth.” In view of all that has gone before, this one simple point has more impact than any number of tractor-borne assaults on American fast-food restaurants by over-subsidised continental gourmets.

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By Nayan Chanda.
Yale University Press; 391 pages; $27.50 and £16.99

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Trees

A walk on the wild side

Jul 26th 2007
From The Economist print edition

Get article background

ROGER DEAKIN often began a walk into a wood at the end of the day. Lying on his back in a tent, with head and shoulders sticking out one end, he would look up to the tops of the trees, and prepare for sleep. From his “rabbit's perspective” he is able to wake as the wood comes alive in the early morning. In his previous book, “Waterlog”, this most natural of naturalists swam his way through Britain in order to get a “frog's eye view” of the country. In “Wildwood”, which Mr Deakin completed shortly before his death last year, he stays just as close to the ground to explore our relationship with the trees that feed, house and warm us.

Wildwood: A Journey Through Trees
By Roger Deakin

Hamish Hamilton; 391 pages; £20

Buy it at Amazon.co.uk

The journey through trees begins in the author's home country of England. He tends to veer off the path, introducing subjects with a charming quirkiness and dropping breadcrumbs of local knowledge along the way. Sycamore wood was used for making milk pails as it doesn't give off any taste; wild cherry trees were known by lumberjacks as widow-makers because the “explosive energy” in their sprung trunks would fling a chainsaw back in your face. A chapter called “Among Jaguars” unexpectedly describes the process of making walnut veneer for the dashboard of a Jaguar car.

Mr Deakin doesn't stay long enough in any one place to put down roots: halfway through the book he turns up in southern France, then the Pyrenees. He searches for the origins of the domestic apple in Kazakhstan to tell an evolutionary tale which explains how every eating apple in the world is a direct descendent of apples in the Tien Shan forest (the bitter taste of apple pips is cyanide, their shape adapted to slip through the guts of a marauding bear unharmed). In Kyrgyzstan he is driven around in a bucking jeep with harvesters among the walnut trees of the Ferghana Valley. And he roams the badlands of the central Australian bush, where the red gums wait for the river to flood before releasing their seeds to be carried away and germinate downstream.

In Poland, Mr Deakin and his companion get lost on the broken mountainside of the Bieszczady Woods. He is disoriented by the suffering of the region's inhabitants during the second world war, first at the hands of the Nazis, then the Soviet army, and humbled by a landscape that has also failed to recover.

Mr Deakin unselfconsciously describes how animals, insects and even trees may experience an event. He wonders how the “swooning scent” of a bluebell wood smells to a moth, tastes the “copious tears” of maple sap when he cuts into the wood, and claims the ash sends out branches in spirals for “no apparent reason except exuberance”. It is this anthropomorphic habit that makes him such a gently persuasive conservationist: he has what Les Murray, an Australian poet, termed “ecological consciousness”, constantly making connections between human and non-human life.

He also muses on the connection between ecology and poetry, drawing on descriptions of the natural world by his favourite poets, as well as other naturalists and friends. He visits several artists, in order to impart another's view of the place he has pitched up in. His descriptions of David Nash's sculptures in wood, or John Wolseley's “frottages” of the burnt-wood Australian landscape, and how these works come into being, are beautifully drawn works of art themselves.

During his travels the author is often reminded, by trees and plants, of home. And this is where the book ends, in his “heartwood”. He returns to a quieter world, where he works laying hedges, turning wood on a lathe, and pondering the independent existence of wood after a tree dies. His journeys into the wood to sleep acted as a reminder of the impermanence of life, to be among the living and dying things in the wild.

Wildwood: A Journey Through Trees.
By Roger Deakin.
Hamish Hamilton; 391 pages; £20

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Fertility treatment

Made, not begotten

Jul 26th 2007
From The Economist print edition

“ARE science-babies exactly like the traditional kind?” Beth Kohl asks herself, when a diagnosis of polycystic ovaries makes it clear that for her it will be the high-tech kind of child or none at all. It is a problem that still bothers her, now the grateful mother of three healthy girls, and prospective mother of any or all of seven frozen embryos. Were her eldest daughter's abdominal cysts, which necessitated major surgery, caused by the way she was conceived? And just what are those “frosties” waiting on ice? Children? The potential to reproduce? Or mere property?

In this sharply observed and wryly written book, Ms Kohl captures the sheer weirdness of *in vitro* fertilisation (IVF). She tells of the existential threat felt by the barren (“I worried I was doomed to a depthless life”) and of the depression, which is both occasional cause and predictable effect of infertility: “Which comes first: the down-in-the-dumps chicken or its empty nest?” She characterises as “a naive gamble” her decision to return three embryos at a time to her womb. But for her the gamble paid off with a singleton, followed later by twins, all born healthy.

For some, it doesn't. Liza Mundy, a *Washington Post* staff writer whose book looks more broadly at fertility treatment in all its manifestations and implications, tells the story of Tammy, who, 21 weeks into an IVF triplet pregnancy, goes into labour and delivers one baby already dead and the other two dying. “Designer babies: What a laugh!” exclaims Ms Mundy, pointing out that more than half of all IVF babies in America arrive as part of a set and that such children are often damaged.

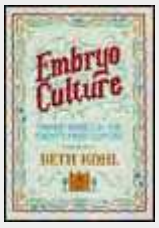
Unlike patients in many other rich countries, most Americans must pay privately and clinics face no restrictions on the number of embryos they put back. Ms Mundy tells of the grief that results: miscarriage, disabled children and “fetal reduction”—a euphemism for the process by which an over-abundant pregnancy is made more manageable by killing one or more fetuses by injecting potassium chloride into their hearts.

IVF was originally a treatment for young married women with blocked fallopian tubes. But it now makes parenthood possible for men with sluggish sperm, couples with genetic diseases, those without a willing partner of the opposite sex—and women who rashly extended their feminist right to choose into choosing to delay motherhood until their 40s. Ms Mundy tells their stories with insight and sensitivity: a gay couple shopping for an egg donor (“your basic Ivy League supermodel”, please); a “gestational carrier” whose life is saved by a hysterectomy when her uterus bleeds uncontrollably after delivering someone else's twins; the children of Fairfax Cryobank's sperm donor 1476, who number at least 38 and whose mothers have found each other online.

She tells of hundreds of thousands of frozen embryos in storage, many abandoned by owners (parents?) who find deciding what to do with them too difficult to face, and of the campaigning Christian groups who “adopt” some of them and bring them to term. Then there are the women who donate eggs in their 20s to pay for college—and find themselves back in fertility clinics in their late 30s on the other side of the transaction.

These are tales of miracles, but miracles with a dark side. They throw up quandaries our ancestors never dreamed of, and answers that raise yet more questions.

Embryo Culture: Making Babies in the Twenty-First Century
By Beth Kohl



Sarah Crichton Books/FSG; 304 pages; $24

Buy it at
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Everything Conceivable: How Assisted Conception is Changing Men, Women, and the World
By Liza Mundy

Knopf; 432 pages; $26.95. Allen Lane; £20

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“The Simpsons Movie”

Dysfunctional family on the move

Jul 26th 2007
From The Economist print edition

A wonderfully smart, witty film that rescues Hollywood from the doldrums

AP

AFTER 18 years on prime-time television, “The Simpsons Movie” brings to the big screen all the qualities that have made the Simpson family superstars. That should reassure pundits who have been fretting over the question Homer Simpson poses at the beginning of the film, after viewing an especially Aesopian episode of “The Itchy & Scratchy Show”, Bart Simpson's favourite ultraviolent cartoon-within-a-cartoon: “Who's going to pay for something they've been getting for free?”

The answer is another question: how many smart, satirical, uproariously witty comedies did Hollywood make this year? “The Simpsons Movie” fills a niche in the major studios' release schedules that has lately become a void.

Critics were shown the film just before it opened to keep the audience's enjoyment of the rococo plot twists from being spiked by internet killjoys, a policy deserving of support. Briefly, an ecological disaster befalls the town of Springfield, brought about by Homer's involvement with a new love and his weakness for doughnuts.

The dysfunctional cohesion of the Simpson family is put to the test. Bart starts wishing he had a father like Ned Flanders next door, who practises family values with a wise serenity that is horribly off-putting. Marge doubts her love for Homer. Lisa meets a musician named Colin whose green politics is matched by his lilting brogue. And baby Maggie breaks 18 years of silence by speaking her first word, which audiences will have to stay through the final credits to hear.

But it is Homer who really evolves, after an Inuit medicine woman teaches him his “throat-song” and sends him on a spirit journey to an epiphany about human interconnectedness based on enlightened self-interest. Strangely, we come to care deeply about all of them.

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Crime fiction

A better class of whodunnits

Jul 26th 2007
From The Economist print edition

CRIME novels are among the easiest and most difficult to craft. The easiest, because the structure is straightforward: the hero is set a task, usually investigating a murder. So begins a perilous odyssey, where villains are dispatched and inner ghosts confronted, before a satisfying resolution. The most difficult, because as the plot is essentially predetermined, the writer needs skill to keep the momentum going, conjuring up original, complex characters and vivid scene-setting.

In a dazzling debut novel, Matt Rees, a former Jerusalem bureau chief for *Time* magazine, succeeds on both counts. His protagonist, Omar Yussef, is almost an anti-hero: a creaky ex-alcoholic schoolteacher with painful joints and faltering moral courage. Yussef works in the Palestinian refugee camp of Deheisha, teaching history, that most contested of subjects in the Middle East. His career is crumbling and he is fighting to keep his job. He turns detective when a former pupil, George Saba, is framed for a murder and charged as a collaborator.

Mr Rees takes the reader on a gripping journey into the depths of Palestinian society. The birthplace of Jesus pulses with hate. The Israelis are minor players; Palestinians are destroying themselves. There is no law except the law of the gun but decent people are still prepared to make a stand. None more so than Yussef.

Far from Bethlehem, in Monterey, California, the heroine of Jeffery Deaver's new novel, is just as dogged as Omar Yussef. Kathryn Dance is a widow with a penchant for expensive shoes. She works for the California Bureau of Investigation and is an expert in body-language and (non-violent) interrogation techniques. Now she is on the trail of Daniel Pell, a mesmerising killer, known as the “Son of Manson” for his cult-like following.

As befits a bestselling crime author, Mr Deaver is a masterful plotter. Each time his heroine gets near her prey, he eludes her at the last moment. The plot twists and turns with a suitable atmosphere of menace and the killer, although a psychopath, is sufficiently complex to keep the reader's interest. At 450 pages the book is too long, but just as spy-thriller writers leaven their narratives with tradecraft tips, Mr Deaver weaves in a steady flow of fascinating instructions on reading body language and eliciting information. This is useful added value for anyone, whether they be parents or police officers.

On the other side of the United States, in New York, private-eye John March is on the trail of an obsessive, disturbed woman who is threatening his brother, David. Despite a high-flying career, David has been seeking casual lovers on the internet. Unfortunately his latest squeeze, known as Wren, is a video artist. She clandestinely tapes her frenzied encounters and sells them to collectors. David's adultery is about to become very public.

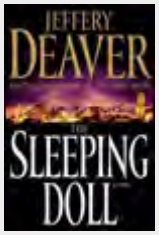
Peter Spiegelman is a leading exponent of the crime sub-genre known as neo-*noir* and “Red Cat” is a dark journey into the parts of New York that few tourists visit, of squalid social housing and anonymous sex. This is an intriguing, intelligent book and the third outing for John March, so it is perhaps surprising that Mr Spiegelman still succumbs to the novice novelist's temptation to provide overlong description. When it comes to scene-setting, less is always more. Nonetheless, the innovative plot, the New York backdrop and the brisk pacing keep the story moving.

The Collaborator of Bethlehem
By Matt Benyon Rees

Soho Crime; 264 pages; $22.
Atlantic Books; £12.

Buy it at
Amazon.com
Amazon.co.uk

The Sleeping Doll
By Jeffery Deaver



Simon & Schuster; 448 pages; $26.95.
Hodder & Stoughton; £14.99.

Buy it at
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Red Cat
By Peter Spiegelman

Knopf; 304 pages; $22.95.

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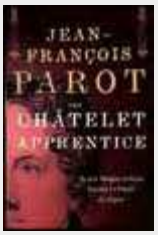
The Châtelet Apprentice

Time travel to Paris

By Jean-François Parot



Gallic Books; 344 pages; £11.99

Buy it at
Amazon.co.uk

“The Châtelet Apprentice” is set in Paris in 1761, a city riddled with dangerous intrigue. Into this perilous world of spies and informers steps the neophyte policeman, Nicholas Le Floch, Breton-born, and as stubborn as his countrymen. Reading this book is akin to time travel: it is an exhilarating portrait of the hubbub and sexual licence of Paris during an 18th-century carnival. As Le Floch steadily grows into his new role as investigator of the mighty, the story takes the reader to grand villas, plush brothels and the stinking municipal morgue.

Written by a French diplomat, and published by Gallic Books, a new British house supported by France's Ministry of Culture, the book is the first in a series of six. It was a roaring success in France, with over 400,000 copies sold and it is easy to see why. The period detail is marvellously evocative, Le Floch is brave and engaging, and even though the story takes place almost 250 years ago, it is curiously reassuring that in many ways, Paris, and human nature, have not changed at all.

The Collaborator of Bethlehem.
By Matt Benyon Rees.
Soho Crime; 264 pages; $22.
Atlantic Books; £12.

The Sleeping Doll.
By Jeffrey Deaver.
Simon & Schuster; 448 pages; $26.95.
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To be published in Britain by Arrow in February 2008.

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Islamic art

For your edification and delight

Jul 26th 2007
From The Economist print edition

Works of art from the Aga Khan's collection on show in London

“THE supposed ‘clash of cultures' is in reality nothing more than a manifestation of mutual ignorance,” writes the Aga Khan, spiritual leader of the world's 15m Ismaili Muslims, in his introduction to “Spirit & Life: Masterpieces of Islamic Art from the Aga Khan Museum Collection”. Be reassured: the exhibition, at the Ismaili Centre in London until August 31st, is no judgment-paralysing blockbuster. It is small but with big ambitions, both to educate and to delight. With some 160 objects and works of art, from a still growing collection already six times that size, the show sets out to illustrate 1,000 years of Islamic artistic and scientific accomplishments in countries from China to Spain. Inevitably, it is just a taster show. But it's a honey of a primer, by turns beautiful, eye-opening, mysterious and puzzling.

The material is organised into two broad areas: “The Word of God” and “The Power of the Sovereign”. Among the items in the first category are more than a dozen Koran folios, all with exceptional calligraphy. Even so, a page from the North African “Blue Koran” (early 10th century) stands out from the rest: few Korans were written on coloured vellum and this is the only known example dyed indigo blue. The Aga Khan writes that “masterpieces are like the ecstasy of the mystic...a stirring of the soul.” The Blue Koran, its gold Kufic script—simultaneously compacted and stretched horizontally—performing a tightly sprung, lyrical dance across a sea of inky blue, is such a masterpiece.

There are many more modest objects in the exhibition. A charming 20th-century, white felt Turkish dervish's cap is decorated with artful geometrical black embroidery spelling out a call to prayer. Produced in large numbers, it illustrates that religious texts are not confined to the page. Similarly, several wood beams are carved with phrases from the Koran. There are tankards, daggers, earrings, coins, writing implements and graceful wooden musical instruments, some with intricate bone inlay (one of the Aga Khan's many international projects seeks to preserve and promote Central Asian music).

An Iranian 16th-century brass boat-shaped vessel (historically used for wine) with dragon-head spouts at either end is, in fact, a dervish's begging bowl. But why, or how, could a wandering holy man, dressed in not much more than a loin cloth, travel with such an elaborate receptacle for hand-outs? The catalogue has fine introductory essays but falls down when it comes to the detailed entries.

An incense burner some 1,000 years old

Miniature painting is probably the Islamic art best known to Westerners. Several in the exhibition illustrate fables; others are portraits of rulers, hunting scenes being popular. The finest and most famous is a page, densely populated with elephants, horses, hunters and princesses, from the 16th-century illuminated Persian manuscript known as the Houghton Shahnama, or Book of Kings. In 1959 Arthur A. Houghton, an American collector, bought the entire manuscript with its 258 illuminations but then broke it up, selling some leaves, giving away others. In 1994 his heirs and the Iranian government agreed to a

swap: in exchange for 118 miniatures, the heirs got a nude by Willem de Kooning. Probably each side felt it had got the better deal.

In 2010 the Aga Khan's museum in Toronto will be finished. Until then “Spirit & Life” will travel to Paris, Lisbon, Bonn and, in 2009, the United States. Toronto, like London, already has an Ismaili social, cultural and religious centre built by the Aga Khan. Yet it was not his first choice for the museum. Twice the Aga Khan tried to acquire sites near the Thames in central London. In 2002 and again the following year, he was defeated, his bids eventually turned down. There was little publicity about his project and no political leader backed it. The Aga Khan chose Toronto instead. London's loss, however much deserved, is a tragically missed opportunity.

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Mohammed Zahir Shah

Jul 26th 2007
From The Economist print edition

Eyevine

Mohammed Zahir Shah, the last king of Afghanistan, died on July 22nd, aged 92

THEY put out a red carpet for Mohammed Zahir Shah when he returned home, after 29 years of exile, in April 2002. As he stepped into the bright sun at Kabul airport, flanked by 50 Italian bodyguards, Pushtun elders struggled to touch him and kiss his hand. He whispered that he was glad to see them. And all was as it should have been.

Yet where the red carpet ran out into the dust, things were not so well. The airport was half destroyed. Since no public announcement had been made of the king's coming, the streets beyond were empty. No flags waved. Up in the hills the royal palaces lay mostly in ruins, bombed repeatedly in the wars which, since 1979, had seen Afghanistan ravaged first by Soviet invaders, then by iconoclastic Taliban rulers and then by an American war of revenge. Zahir Shah's monument to his father, a mausoleum of blue tile and white marble, had been ransacked to its brick core and covered with graffiti. That night servants ushered him to a four-poster bed in a richly painted room with bullet holes in the window-frames.

Part of him had always yearned to go back to his “secret soil”, away from his cement-coloured villa in suburban Rome where every tree had been chopped down to deter assassins and where men with machineguns kept watch night and day. But part of him, too, had been reluctant. He was very old, with all the infirmities of age. And that apart, his nature was furtive and cautious. One of his favourite pastimes had been to stalk deer and wild sheep in the Afghan mountains, little by little drawing closer to the target without discharging any of his power. He liked to play politics the same way.

His years as king of Afghanistan, from 1933 to 1973, were remembered mostly for the final decade, when he emerged from the shadow of pushy relations to promote some reforms of his own. It was his uncles who had kept Afghanistan usefully neutral in the second world war, and his cousin Daoud Shah who skilfully played off the Soviet Union and America to get money for roads, schools and hospitals, mostly in Kabul, in the cold war. But it was Zahir who did the eyebrow-raising things: allowing women, in 1959, to discard the veil if they wanted to, letting raunchy Western films into the country, permitting wine production and, from 1963, gently half-easing the cork from that potent brew called democracy.

To the exasperation of the Americans who hoped to cultivate him, he never did much more. The press was slightly liberated. Political parties, mostly of a Marxist-Leninist bent, were tolerated but not made legal. In 1964 a constitution, Afghanistan's first, banned all royals except the king from taking part in politics. That was aimed squarely at cousin Daoud, who got his revenge in 1973 by waiting until Zahir Shah had gone to Italy—for eye surgery, say some, or for mud-baths to help his lumbago—and informing him by letter that he need not come back.

In a Pushtun turban

From that point on, as Afghanistan fell into chaos, Zahir Shah's time in power acquired a steadily deepening glow. He became, to his delight, “Baba”, the father of his country, the bringer of stability and peace. The snail's-pace progress of his reforms, and the economic doldrums, were forgotten. He became too, in absence, an emblem of unity. This was even less deserved, for the Islamists had long loathed him, both for his cultural reforms and for his insistence that *sharia* law came second to laws passed by parliament.

He was also not tribally neutral, as no Afghan could be. For all his talk of the general “people” he was fervently Pushtun, pairing his Dolce & Gabbana sunglasses with a striped Pushtun turban when in conference with elders, and appalling the Pakistanis with his concept of a grand Pushtunistan that would straddle their mutual border. In social terms he remained the elite of the elite, a member of the Mohammadzai clan of the Durrani tribe of the Pushtun, rulers of Afghanistan since 1747, with a lilt of Persian in his speech that immediately marked him out, even without the French education and the sleek Italian tailoring.

Nevertheless, by the autumn of 2001 the Americans and the British thought he could be useful. With the defeat of the Taliban, his desperately fractured country might be ready for elections of the sort Zahir Shah had successfully held before. But diplomats had an uphill job to convince him to go home. And even then, he insisted, he would go only as an enabler, to convene a *loya jirga* or meeting of the tribal elders to get a new government into shape. For all the bowing and scraping and “Your Majesties”, he was not going to bring kingship back to Afghanistan. The title of “Baba” could not be passed on.

What, then, would he do there, once the *loya jirga* was over and a rickety government in place? A gentle man, his ambitions were small. He wanted to rebuild his father's tomb. Somewhere too, among the ruins, he meant to find the orchard where, as king, he had grown pears and melons with his own hands, and coax it back to order. From the drive through empty Kabul on the day he returned he treasured one particular image, of a small boy standing in a garden, and called it hope.

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Overview

Jul 26th 2007
From The Economist print edition

Activity in **America's housing market** dropped again last month but prices stopped falling, according to the National Association of Realtors. Sales of existing homes fell by 3.8% in June and were 11.4% below their level a year earlier. The stock of homes for sale fell by 4.2% in the month leaving a backlog of 8.8 months' worth of sales on the market. The median home price rose by 0.3% in the year to June, the first increase for 11 months.

Britain's GDP rose by 0.8% in the second quarter, leaving it up 3% compared with a year earlier.

New orders for industrial goods in the **euro area** rose by 1.7% in May, leaving them 9.1% higher than in May 2006.

South Korea's GDP rose by 1.7% in the second quarter, according to the central bank's initial estimate, leaving it 4.9% higher than a year earlier.

Consumer prices in **Australia** rose by 2.1% in the year to the second quarter. The news increased the chances that the central bank will raise interest rates after its meeting on August 8th.

In **South Africa**, consumer prices rose by 7% in the year to June. Excluding mortgage-interest payments, prices rose by 6.4%, the same rate as in May, keeping targeted inflation above the central bank's 3-6% range.

Poland's central bank kept its benchmark interest rate at 4.5% on July 25th.

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Output, prices and jobs

Jul 26th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q1	+0.7	+2.1	+2.7	+1.4 Jun	+2.7 Jun	+4.3	+2.7	4.5 Jun
Japan	+2.6 Q1	+3.3	+2.6	+2.3	+3.7 May	nil May	+0.1	−0.1	3.8 May
China	+11.9 Q2	nil	+10.5	+9.6	+19.4 Jun	+4.4 Jun	+1.5	+3.0	9.5 2006
Britain	+3.0 Q2	+3.3	+2.8	+2.4	+0.6 May	+2.4 Jun**	+2.5	+2.4	5.4 May††
Canada	+2.0 Q1	+3.7	+2.5	+2.7	−0.7 Apr	+2.2 Jun	+2.4	+2.3	6.1 Jun
Euro area	+3.0 Q1	+2.4	+2.7	+2.3	+2.5 May	+1.9 Jun	+2.5	+2.0	7.0 May
Austria	+3.5 Q1	+3.6	+2.9	+2.6	+9.1 Apr	+2.0 Jun	+1.5	+1.8	4.3 Jun
Belgium	+2.9 Q2	+2.4	+2.6	+2.3	+1.8 May	+1.3 Jun	+1.9	+1.8	10.5 Jun‡‡
France	+2.1 Q1	+2.4	+2.0	+2.1	−0.3 May	+1.2 Jun	+1.9	+1.5	8.1 May
Germany	+3.6 Q1	+2.1	+2.8	+2.3	+4.6 May	+1.8 Jun	+2.0	+1.9	9.1 Jun
Greece	+4.6 Q1	na	+3.7§	+3.2§	+0.3 May	+2.6 Jun	+3.2	+2.6§	8.4 Apr
Italy	+2.3 Q1	+1.1	+1.9	+1.7	+0.9 May	+1.7 Jun	+2.3	+1.8	6.2 Q1
Netherlands	+2.5 Q1	+3.6	+2.7	+2.6	+2.2 May	+1.7 Jun	+1.7	+1.8	4.6 Jun††
Spain	+4.1 Q1	+4.6	+3.7	+2.8	+2.4 May	+2.4 Jun	+3.9	+2.6	8.2 May
Czech Republic	+6.1 Q1	+6.1	+5.2	+4.0	+7.5 May	+2.5 Jun	+2.8	+2.7	6.3 Jun
Denmark	+2.3 Q1	+2.2	+2.2	+2.0	−4.3 May	+1.4 Jun	+2.1	+1.9	3.5 Jun
Hungary	+2.7 Q1	+2.4	+2.7	+3.0	+5.7 May	+8.6 Jun	+2.8	+7.3	7.3 May††
Norway	+2.8 Q1	+2.9	+2.7§	+2.5§	−3.9 May	+0.4 Jun	+2.1	+0.8§	2.7 May††
Poland	+7.4 Q1	na	+6.3	+5.1	+5.6 Jun	+2.6 Jun	+0.8	+2.1	12.4 Jun‡‡
Russia	+7.9 Q1	na	+6.7	+6.2	+10.9 Jun	+8.5 Jun	+9.1	+7.8	6.7 Jun‡‡
Sweden	+3.0 Q1	+2.6	+3.5	+3.2	+3.6 May	+1.9 Jun	+1.5	+1.8	4.9 Jun‡‡
Switzerland	+2.4 Q1	+3.2	+2.4	+2.1	+7.3 Q1	+0.6 Jun	+1.6	+0.7	2.5 Jun‡‡
Turkey	+6.8 Q1	na	+6.0	+5.2	+5.2 May	+8.6 Jun	+10.1	+9.4	11.4 Q1‡‡
Australia	+3.8 Q1	+6.6	+3.5	+3.3	+5.5 Q1	+2.1 Q2	+4.0	+2.3	4.3 Jun
Hong Kong	+5.6 Q1	+2.0	+5.7	+5.0	−1.5 Q1	+1.3 Jun	+2.2	+2.0	4.2 Jun††
India	+9.1 Q1	na	+8.5	+8.0	+11.1 May	+6.6 May	+6.3	+5.9	7.6 2006
Indonesia	+6.0 Q1	na	+6.3	+6.2	+11.8 May	+5.8 Jun	+15.5	+5.8	9.8 Feb
Malaysia	+5.3 Q1	na	+5.9	+5.8	+3.1 May	+1.4 Jun	+3.9	+2.4	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.8§	+5.9§	+6.8 Sep	+7.0 Jun	+7.6	+6.3§	na
Singapore	+8.2 Q2	+12.8	+5.0	+4.4	−7.4 Jun	+1.3 Jun	+1.4	+0.9	2.9 Q1
South Korea	+4.9 Q2	+7.0	+4.5	+4.7	+6.6 May	+2.5 Jun	+2.4	+2.4	3.3 Jun
Taiwan	+4.2 Q1	na	+4.4	+4.5	+7.5 Jun	+0.1 Jun	+1.7	+1.2	3.9 Jun
Thailand	+4.3 Q1	+4.9	+4.2	+4.9	+6.3 May	+1.9 Jun	+5.9	+2.6	1.6 Mar
Argentina	+8.0 Q1	+4.1	+7.6	+5.4	+4.0 May	+8.8 Jun	+11.0	+9.6	9.7 Q1‡‡
Brazil	+4.3 Q1	+3.2	+3.7	+3.7	+4.9 May	+3.7 Jun	+4.0	+3.3	10.1 May‡‡
Chile	+5.8 Q1	na	+5.9	+5.3	+3.0 May	+3.2 Jun	+3.9	+3.0	6.7 May††‡‡
Colombia	+8.1 Q1	+10.3	+5.1	+4.5	+11.9 May	+6.0 Jun	+3.9	+5.5	11.0 Apr‡‡
Mexico	+2.6 Q1	+0.6	+3.1	+3.5	+1.1 May	+4.0 Jun	+3.2	+3.9	3.3 Jun‡‡
Venezuela	+8.8 Q1	na	+5.2	+2.8	+10.0 Apr	+19.4 Jun	+11.8	+18.2	8.0 Q2‡‡
Egypt	+7.4 Q1	na	+7.0	+7.2	+10.5 2006	+8.5 Jun	+6.4	+8.4	9.0 Q4‡‡
Israel	+5.4 Q1	+6.3	+5.6	+4.6	+6.6 May	−0.7 Jun	+3.5	−0.3	7.7 Q1
Saudi Arabia	+4.3 2006§	na	+3.9§	+5.0§	na	+3.0 May	+2.2	+2.7§	na
South Africa	+5.4 Q1	+4.7	+4.8	+5.2	+6.6 May	+7.0 Jun	+4.9	+5.8	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.8 Q1	+9.5	+9.4§	+5.8§	+6.2 May	+5.8 Jun	+4.3	+5.3§	5.2 May
Finland	+5.4 Q1	+3.4	+2.7§	+2.5§	−2.0 May	+2.5 Jun	+1.7	+1.4§	6.6 Jun
Iceland	−0.1 Q1	−3.6	+1.0§	+2.2§	+7.6 2006	+3.8 Jul	+8.4	+4.6§	1.0 Jun‡‡
Ireland	+7.5 Q1	+20.1	+5.0§	+3.4§	−5.6 May	+4.9 Jun	+3.9	+4.2§	4.6 Jun
Latvia	+10.7 Q1	na	+9.6§	+7.5§	+3.4 May	+8.8 Jun	+6.3	+7.9§	5.6 May
Lithuania	+8.3 Q1	+6.1	+7.5§	+6.7§	na	+4.8 Jun	+3.7	+2.2§	2.7 Jun
Luxembourg	+6.2 Q1	+6.6	+4.9§	+4.9§	+1.6 Apr	+2.0 Jun	+3.2	+2.4§	4.1 May‡‡
New Zealand	+2.7 Q1	+2.5	+3.9§	+3.1§	nil Q1	+2.0 Q2	+4.0	+2.4§	3.8 Q1
Peru	+8.3 May	na	+7.1	+5.5	+10.8 Apr	+1.6 Jun	+1.8	+1.2	7.6 Jun‡‡
Philippines	+6.9 Q1	+10.3	+6.0	+5.6	−1.3 Apr	+2.3 Jun	+6.7	+2.9	7.4 Q2‡‡
Portugal	+2.1 Q1	+3.2	+1.8§	+2.1§	+3.8 Apr	+2.4 Jun	+3.7	+2.3	8.4 Q1‡‡
Slovakia	+9.0 Q1	na	+8.0§	+6.0§	+17.4 May	+2.5 Jun	+4.6	+2.5	8.3 May
Slovenia	+7.2 Q1	na	+5.6§	+4.2§	+2.5 May	+3.6 Jun	+2.9	+2.6	7.7 May‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.4% in Jun. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Jul 26th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jul 17th	Jul 24th*	% change on one month	% change on one year
Dollar index				
All items	203.8	207.7	+2.7	+19.7
Food	171.0	172.3	+1.4	+25.9
Industrials				
All	246.3	253.4	+3.9	+14.7
Nfa†	163.1	162.4	+0.1	+5.3
Metals	291.7	303.0	+5.1	+17.8
Sterling index				
All items	151.2	152.8	–0.4	+7.3
Euro index				
All items	136.7	138.9	+0.0	+9.3
Gold				
$ per oz	666.20	684.30	+6.2	+12.0
West Texas Intermediate				
$ per barrel	74.07	73.50	+8.4	–0.3

*Provisional †Non-food agriculturals.

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Austria

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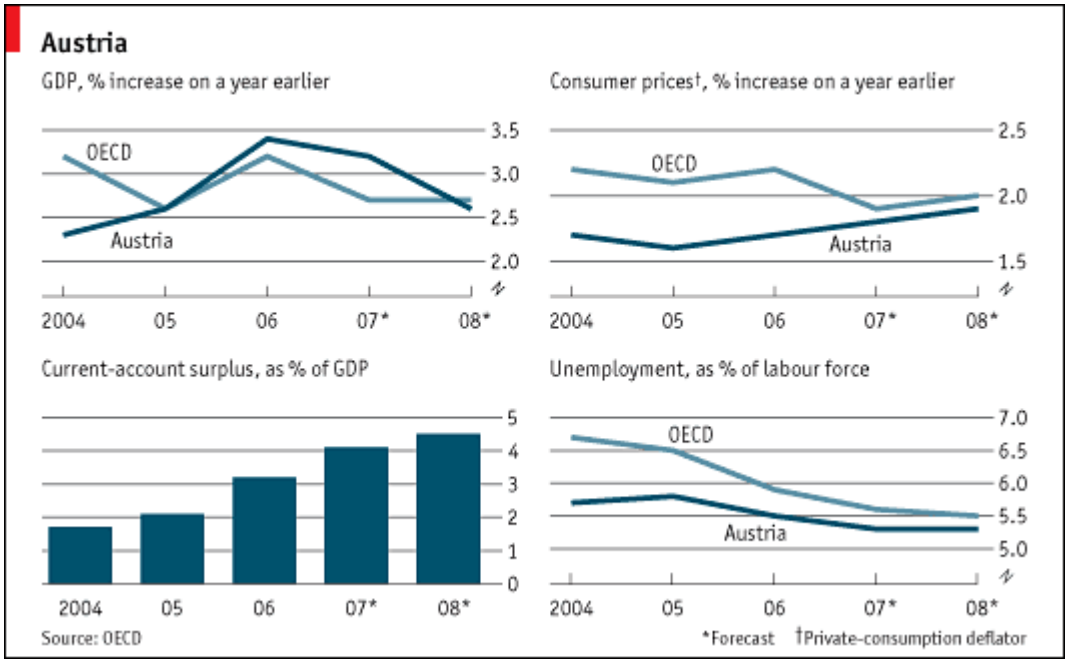

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Trade, exchange rates, budget balances and interest rates

Jul 26th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†‡	Currency units, per $ Jul 25th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−827.1 May	−803.4 Q1	−6.0	–	–	−1.2	5.21	4.90
Japan	+91.4 May	+190.0 May	+3.4	120	117	−4.4	0.66	1.86
China	+229.1 Jun	+249.9 2006	+10.7	7.56	7.98	−0.7	3.19	4.16
Britain	−155.2 May	−93.0 Q1	−3.2	0.49	0.54	−2.7	6.00	5.30
Canada	+48.0 May	+18.5 Q1	+1.6	1.04	1.14	0.6	4.57	4.58
Euro area	+15.9 May	−1.0 May	nil	0.73	0.79	−0.9	4.24	4.40
Austria	+0.7 Apr	+13.2 Q1	+2.9	0.73	0.79	−0.8	4.24	4.48
Belgium	+18.2 May	+11.2 Mar	+2.1	0.73	0.79	nil	4.30	4.50
France	−36.1 May	−31.7 May	−1.2	0.73	0.79	−2.8	4.24	4.46
Germany	+234.6 May	+175.4 May	+4.9	0.73	0.79	0.3	4.24	4.39
Greece	−46.6 Apr	−33.6 May	−8.4	0.73	0.79	−2.4	4.24	4.68
Italy	−21.2 May	−48.4 Apr	−2.0	0.73	0.79	−2.6	4.24	4.65
Netherlands	+45.3 May	+16.8 Q1	+7.8	0.73	0.79	0.6	4.24	4.44
Spain	−119.6 May	−115.9 Apr	−8.6	0.73	0.79	2.0	4.24	4.50
Czech Republic	+2.8 May	−5.3 May	−4.0	20.5	22.5	−4.0	3.13	4.53
Denmark	+5.4 May	+5.3 May	+2.3	5.43	5.91	3.8	4.44	4.46
Hungary	−0.4 May	−6.2 Q1	−5.2	181	216	−6.5	7.53	6.60
Norway	+54.7 Jun	+57.3 Q1	+14.3	5.80	6.29	16.8	4.90	5.04
Poland	−7.5 May	−10.2 May	−2.7	2.77	3.10	−2.4	4.81	5.54
Russia	+128.3 May	+77.7 Q2	+6.8	25.5	26.9	3.0	10.00	6.05
Sweden	+19.5 Jun	+29.8 Q1	+6.9	6.73	7.34	2.4	3.47	4.33
Switzerland	+11.0 Jun	+102.1 Q1	+14.4	1.21	1.25	0.3	2.73	3.07
Turkey	−53.4 May	−31.0 May	−6.3	1.25	1.52	−2.8	18.72	6.65§
Australia	−9.9 May	−43.8 Q1	−5.4	1.13	1.32	1.3	6.46	6.11
Hong Kong	−18.9 May	+23.2 Q1	+10.1	7.82	7.78	1.8	4.38	4.52
India	−63.2 May	−9.6 Q1	−1.1	40.4	46.8	−3.3	4.49	8.12
Indonesia	+41.4 May	+10.3 Q1	+1.9	9,105	9,120	−1.6	8.23	6.80§
Malaysia	+28.5 May	+26.0 Q1	+9.9	3.42	3.68	−3.4	3.62	5.42§
Pakistan	−13.4 Jun	−6.8 Q1	−5.7	60.4	60.3	−3.8	9.52	8.53§
Singapore	+35.5 Jun	+38.1 Q1	+23.1	1.51	1.58	0.3	2.56	2.94
South Korea	+18.7 Jun	+4.6 May	+1.0	914	955	0.5	5.07	5.41
Taiwan	+13.8 Jun	+28.1 Q1	+5.1	32.8	32.8	−2.2	2.55	2.79
Thailand	+7.7 May	+9.6 May	+2.3	33.7	38.0	−1.9	3.60	4.11
Argentina	+11.2 Jun	+7.8 Q1	+3.0	3.18	3.08	1.2	10.00	na
Brazil	+47.4 Jun	+15.0 Jun	+1.0	1.88	2.21	−2.4	11.43	6.16§
Chile	+25.5 Jun	+7.1 Q1	+5.2	522	543	6.6	5.88	5.58§
Colombia	−0.9 Apr	−4.1 Q1	−2.5	1,936	2,467	−0.9	8.19	6.36§
Mexico	−11.8 Jun	−5.5 Q1	−0.9	10.9	10.9	0.1	7.19	7.68
Venezuela	+28.2 Q1	+23.8 Q1	+7.6	2,147	2,628	−4.1	10.17	6.55§
Egypt	−14.1 Q1	+3.3 Q1	+1.2	5.66	5.75	−5.6	6.88	5.73§
Israel	−7.8 Jun	+8.1 Q1	+3.1	4.26	4.43	−0.8	3.77	5.26
Saudi Arabia	+148.5 2006	+95.4 2006	+21.4	3.75	3.75	16.6	5.04	na
South Africa	−9.2 May	−16.6 Q1	−6.5	6.91	6.99	0.5	9.95	8.43
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.9 Apr	−3.1 Apr	−16.0	11.4	12.4	1.7	4.72	na
Finland	+12.6 May	+12.6 May	+5.7	0.73	0.79	2.5	4.18	4.46
Iceland	−1.9 May	−4.0 Q1	−17.4	60.2	72.8	2.8	13.95	na
Ireland	+35.2 Apr	−10.6 Q1	−5.0	0.73	0.79	0.5	4.24	4.47
Latvia	−6.0 May	−5.6 May	−22.2	0.51	0.55	nil	5.55	na
Lithuania	−6.3 May	−3.9 May	−12.5	2.52	2.74	−0.5	5.01	na
Luxembourg	−5.3 Apr	+4.5 Q1	na	0.73	0.79	0.3	4.24	na
New Zealand	−3.9 May	−9.1 Q1	−10.7	1.25	1.60	4.8	7.10	6.84
Peru	+8.9 May	+2.7 Q1	+1.9	3.16	3.24	0.4	4.75	na
Philippines	−3.7 Apr	+5.7 Mar	+5.1	45.1	51.8	−1.1	6.63	na
Portugal	−23.0 Apr	−17.2 Apr	−7.9	0.73	0.79	−3.3	4.24	4.61
Slovakia	−2.0 May	−3.8 Mar	−4.3	24.2	30.2	−2.9	4.12	4.62
Slovenia	−2.3 May	−1.5 Apr	−2.2	0.73	0.79	−1.1	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Jul 26th 2007
From The Economist print edition

Markets

	Index Jul 25th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,785.1	–1.0	+10.6	+10.6
United States (S&P 500)	1,518.1	–1.8	+7.0	+7.0
United States (NAScomp)	2,648.2	–1.9	+9.6	+9.6
Japan (Nikkei 225)	17,858.4	–0.9	+3.7	+2.7
Japan (Topix)	1,754.0	–0.3	+4.3	+3.4
China (SSEA)	4,535.8	+10.0	+61.1	+66.4
China (SSEB, $ terms)	309.3	+12.7	+130.2	+137.7
Britain (FTSE 100)	6,454.3	–1.7	+3.8	+8.7
Canada (S&P TSX)	14,105.3	–3.3	+9.3	+21.7
Euro area (FTSE Euro 100)	1,372.8	–2.3	+7.4	+11.6
Euro area (DJ STOXX 50)	4,360.9	–2.5	+5.8	+10.0
Austria (ATX)	4,786.3	–0.9	+7.2	+11.5
Belgium (Bel 20)	4,484.6	–1.8	+2.2	+6.2
France (CAC 40)	5,837.1	–2.6	+5.3	+9.5
Germany (DAX)*	7,692.6	–2.5	+16.6	+21.2
Greece (Athex Comp)	5,067.8	–0.4	+15.3	+19.9
Italy (S&P/MIB)	40,503.0	–3.0	–2.2	+1.6
Netherlands (AEX)	546.9	–1.6	+10.4	+14.8
Spain (Madrid SE)	1,644.2	–0.7	+5.7	+9.9
Czech Republic (PX)	1,851.6	–0.7	+16.5	+18.5
Denmark (OMXCB)	486.9	–0.4	+14.8	+19.5
Hungary (BUX)	29,337.7	–1.9	+18.1	+24.7
Norway (OSEAX)	584.7	–2.1	+16.4	+25.0
Poland (WIG)	64,842.3	–0.2	+28.6	+34.9
Russia (RTS, $ terms)	2,047.8	+0.6	+3.2	+6.6
Sweden (Aff.Gen)	400.5	–2.8	+9.6	+11.5
Switzerland (SMI)	8,922.7	–1.7	+1.6	+2.1
Turkey (ISE)	54,831.9	+7.3	+40.2	+58.4
Australia (All Ord.)	6,378.0	+0.2	+13.0	+26.7
Hong Kong (Hang Seng)	23,362.2	+2.3	+17.0	+16.3
India (BSE)	15,699.3	+2.6	+13.9	+24.9
Indonesia (JSX)	2,394.6	+4.4	+32.6	+31.0
Malaysia (KLSE)	1,379.7	+0.8	+25.9	+29.7
Pakistan (KSE)	13,595.2	–0.5	+35.4	+36.4
Singapore (STI)	3,633.5	+1.4	+21.7	+23.6
South Korea (KOSPI)	2,004.2	+3.8	+39.7	+42.2
Taiwan (TWI)	9,740.1	+2.7	+24.5	+23.7
Thailand (SET)	883.7	+4.0	+30.0	+39.4
Argentina (MERV)	2,242.8	–0.2	+7.3	+3.3
Brazil (BVSP)	56,001.0	–2.7	+25.9	+43.3
Chile (IGPA)	14,884.9	–0.4	+20.3	+22.7
Colombia (IGBC)	11,205.8	–0.1	+0.4	+16.2
Mexico (IPC)	31,103.5	–2.5	+17.6	+17.2
Venezuela (IBC)	41,678.5	+0.9	–20.2	+24.2
Egypt (Hermes)	74,190.1	+0.1	+21.0	+22.1
Israel (TA-100)	1,145.9	+0.2	+24.3	+23.2
Saudi Arabia (Tadawul)	7,633.5	+1.8	–3.8	–3.8
South Africa (JSE AS)	29,105.3	–1.1	+16.8	+19.3
Europe (FTSEurofirst 300)	1,571.8	–1.9	+6.0	+10.1
World, dev'd (MSCI)	1,614.8	–1.8	+8.8	+8.8
Emerging markets (MSCI)	1,147.6	+1.4	+25.7	+25.7
World, all (MSCI)	405.6	–1.5	+10.3	+10.3
World bonds (Citigroup)	671.5	+0.7	+2.0	+2.0
EMBI+ (JPMorgan)	409.0	–0.7	+0.4	+0.4
Hedge funds (HFRX)	1,368.9	–0.7	+7.3	+7.3
Volatility, US (VIX)	18.1	16.0	11.6	(levels)
CDSs, Eur (iTRAXX)†	36.1	+10.1	+54.7	+60.8
CDSs, N Am (CDX)†	56.6	+17.7	+69.3	+69.3
Carbon trading (EU ETS) €	0.11	+10.0	–98.3	–98.2

*Total return index. †Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS;

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Executive pay

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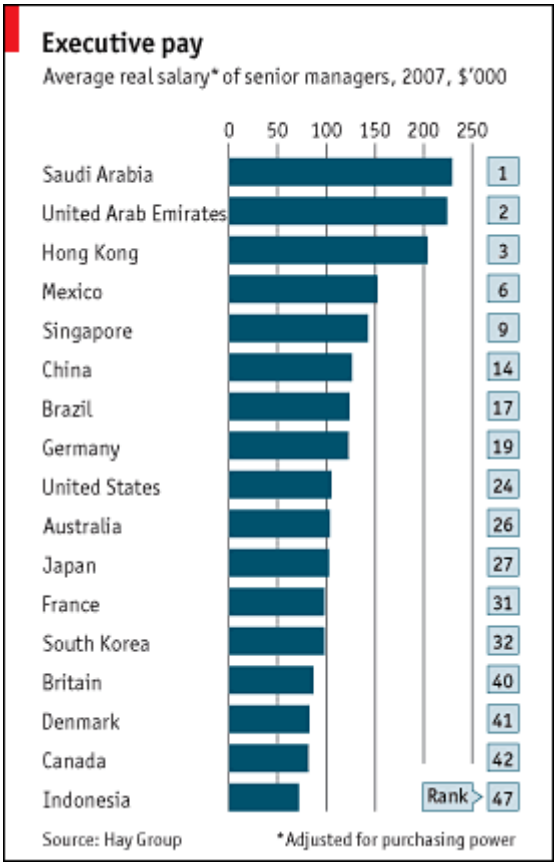
Senior managers stationed in the Middle East, Russia and Mexico are better paid than their western counterparts, once their cost of living is taken into account, according to Hay Group, a consultancy. It compares senior managers' disposable income across 47 countries, by looking at average salaries, then taking into account income tax and living costs. By this calculation, senior managers in Saudi Arabia have the equivalent of $229,000 to spend on average; those in Britain just $86,000. In emerging markets, a shortage of experienced managers is pushing up pay. Managers in Turkey, Mexico and the Ukraine all enjoy far more buying power than their peers in America, who rank only 24th.



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